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DEVELOPMENT OF ECONOMIC INTELLIGENCE:
OFFICE OF RESEARCH AND REPORTS

VOLUME II
1960 - 1967

by

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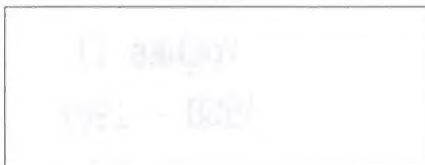
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OFFICE OF RESEARCH AND REPORTS

VOLUME II.
1960 - 1967

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Chapter I

STATE OF ECONOMIC INTELLIGENCE IN THE EARLY SIXTIES

"It is a thought provoking question whether human beings can be taught to accept the life of the ant in return for an officially determined supply of goods and services."

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~~SECRET~~A. Introduction

The Office of Research and Reports (ORR) entered the decade of the 1960's with an assured -- but still somewhat circumscribed -- role in the production of national economic intelligence. It had made a determined and exhaustive analysis of the economy of the USSR, its primary target. Because its judgments about that economy were based on sound and meticulous research, its continuing analysis provided the clues that enabled the Office to foresee some of the difficulties that lay ahead for the Soviets. Thus, as will be seen in Chapters III and IV, the faltering of the Soviet economy in the early 1960's was noted by ORR's analysts well in advance of other Western observers -- and of Soviet admissions.

The Office's approach to the economies of other Communist countries differed only in degree from

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that on the Soviet Union. As has been noted in Volume I, however, it was not so prescient with respect to the Chinese economy. Its analysts did see through some of the statistical distortions of the "great leap forward" campaign but failed to discount them sufficiently. To have foreseen also the Sino-Soviet rupture and the impact of continued bad weather on agriculture in the early 1960's and to have made full allowance for the ideological intransigence of China's leaders would have been a prodigious tour de force of intelligence wisdom, and ORR, along with the rest of the community, failed to pull it off.

ORR's entry into economic intelligence on the Free World, which was to be the principal substantive development of the early 1960's, had barely begun at the turn of the decade.

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B. Work on the USSR in the Early 1960's

1. Support to Congress

Having made its presence known as an authoritative voice on the Soviet economy through the public appearances of DCI Allen Dulles and others, the Agency was increasingly called upon for economic intelligence judgments in this period. Demands from ORR's traditional customers continued, of course, while the Congress, in particular, demonstrated an increased interest. A problem posed by Senator Javits during Dulles's appearance before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee in December 1959 resulted in an unclassified paper (produced jointly by ORR with the Departments of State and Defense) which undertook a comparison of the United States and Soviet economies in terms of the costs and benefits to each of its bloc and pact system.* The report -- after pointing out the conceptual difficulties of such a comparison -- concluded that each side derived a net benefit from its alliance system, but that the Western powers gained more from their

* This document was publicly printed and released as being the product of the Agency with the cooperation of the two departments.

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system than the Bloc countries did from theirs. The conclusion warned, however, that the Soviet gains resulted in a total Bloc power position that presented the Free World with a serious challenge. 1/*

The Joint Economic Committee again addressed itself to the Soviet economic threat in 1962. On this occasion, ORR's participation was substantial,

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2. The Military-Economic Problem

Estimation of Soviet military expenditures had been an ORR effort since the mid-1950's. Initially the primary interest had been in the overall magnitude of these expenditures. Two general approaches had been developed for this purpose: the disaggregation approach and the building-block approach.

The disaggregation approach was based on the hypothesis that officially released Soviet aggregative data -- the budget, national income, indices of the gross value of output, and so on -- were substantially reliable. Thus, if the veil of secrecy clouding precise definitions and the requisite detailed data could be penetrated, the released figures could be disaggregated, and their deeper meaning would unfold. Although this effort had been carried on with less than complete success, it had yielded a gross appreciation of the magnitude and trend in the resources (expressed in monetary terms) which the Soviets had available to devote to defense, nuclear weapons, and space activities. This approach could produce only gross approximations, however, and it provided little insight into the bases for probable Soviet choices between

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competing weapon systems. Accordingly, the building block approach gradually became the basis for estimating Soviet military expenditures. The results of this latter approach, of course, were compared with the magnitudes that were evolved from the disaggregation approach and were melded into the various aggregative analyses of the Soviet economy.

The essence of the building-block approach was to identify the cost of various military units and their assigned equipment and weapons (e.g., bomber regiments, fighter regiments, strategic rocket forces, operational strength task divisions, and the like). These breakdowns not only were designed to reflect the structure of Soviet forces as the Soviets organized them, but also were sufficiently detailed to permit manipulation for international comparisons. The estimates of force structure (order of battle) and military manpower and the estimates of their appropriate equipment and weapon systems were identified in terms of or distributed to major mission categories. Unit costs were devised, based on the best available estimates of what the units would have cost in

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dollars and then adjusted by appropriate ruble-dollar ratios.* Finally, the unit costs were applied to the estimated quantities and the results summarized in a variety of ways: by mission (strategic attack, air defense, and so on), and by industrial origin (machinery, electronics, and so on).

Information deficiencies still plagued the results of this approach. Differing degrees of confidence were attached to the various component parts, depending on the quality of the estimates of quantities and prices involved. Relatively high confidence was attached to the estimates of expenditures for manpower; on the other hand, for those for research, development, testing, and evaluation, the confidence limits were very wide, not only because of the inherent problems of scant and misleading intelligence data, but also because of the inherent difficulty of defining and measuring such expenditures in any country. 2/ However, the application of these approaches by the Office and the consequent development of data that could be

* There was no single ratio for converting Soviet military costs from rubles to dollars, but rather a wide range of ratios for various categories; e.g., a ruble would buy the equivalent of \$3.35 worth of military manpower, but less than half that in military electronic equipment.

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processed by computer made possible an estimation of expenditures on a detailed military mission basis. In the early 1960's, this constituted a significant intelligence contribution in the military economics sphere. Secretary of Defense McNamara was understandably eager to have the new Defense Intelligence Agency (DIA) collaborate with CIA in its analysis in order to reach the firmest judgments possible on Soviet military strength as a measure of the threat that his Department's planning would have to counter. The CIA-DIA Joint Analysis Group (JAG) set up in 1972 to make long-range projections was a result by this desire. ORR's "costing" analysis was a major input to the work of JAG. 3/

3. Other Work on the Soviet Union

Under the impact of expanded military-economic research, ORR's effort on the Soviet Union in the early 1960's continued to focus on overall aggregative assessments with some diminution of the detailed analysis of non-military industrial sectors. The ERA in 1961 and 1962 zeroed in particularly on the apparent soft spots in the economy --

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agriculture and manpower -- and undertook a detailed study of plans for the introduction of new technology and automation in Soviet industry. Soviet 20-year advance planning, as revealed at the 22nd Party Congress in October 1961, was also scrutinized in detail. The 20-year program contained glowing promises of the Utopia to come for the Soviet consumer, but ORR's analysis made it clear that consumption would continue to be subordinated to the requirements of national power and that

The general drift of the future pattern of Soviet life is ... to restrict still further individual freedom of choice and personal or family goals and activities. 4/

One of the significant constraints on Soviet economic progress in the 1960's was considered to be the manpower problem, caused primarily by the tremendous population losses of World War II and the low birthrates of the war years. ORR's most significant report on the implications of this problem was produced in 1960 and issued in the unclassified dissemination series. 5/ Not only was it the subject of a Cabinet briefing by the DDI, [redacted] but it was reprinted (with Agency attribution) as an appendix to the published version of the Senate Foreign Relations Committee Hearings,

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Events Incident to the Summit Conference. 6/ It was also the subject of an article by Harry Schwartz in the New York Times, 7/ and this publicity caused a considerable "run" on the Office's supply of the publication. Requests were received not only from

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Although the report was primarily concerned with describing the changes in the population and labor force of the USSR expected to take place between 1960 and 1970, the Schwartz article, and presumably the public interest, were more concerned with its forecast of Soviet gross national product (GNP). Notwithstanding its failure to pinpoint the economic slowdowns of the mid-1960's, its predictions for 1970 were commendably close to the mark (see Table 1). Its forecast of Soviet 1970 GNP was \$240 billion (in 1958 dollars). Put in 1969 dollars (to compare with the 1971 Statistical Handbook), this was equivalent to \$538 billion, only \$30 billion above OER's estimate for 1970 made in the 1971 Handbook -- a forecasting error of less than 6 percent. The population forecast for 1970 was 247

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Table 1

Selected Soviet Economic Data for 1970

	As Forecast in 1960 <u>8/</u>	As Reported in 1971 <u>9/</u>
GNP (in 1969 US \$)	538 billion	508 billion
Population	247 million	243 million
Labor force	123 million	124 million

million against a recorded population of 243 million -- 1.6 percent over, while its estimate of the 1970 labor force was 123 million, compared with the 1971 Handbook's estimates for 1970 of 124 million -- only 0.8 percent off the mark.

C. Sino-Soviet Rift

The same factors that made it difficult to foresee the economic problems that befell Communist China in this period prevented early realization of the depth and durability of the Sino-Soviet rift. It was clear from 1958 on that the Soviet leadership was not happy with the Maoist deviations from the Soviet model, as expressed in China's "great leap forward" and commune movements. It was particularly unhappy with implications that the Chinese had discovered shortcuts on the road to Communism that other Bloc countries, including the USSR, would do well to emulate. By 1960,

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however, the Chinese were backtracking somewhat, and it appeared to Western observers, virtually without exception, that the Chinese dependence on continued Soviet aid and support would prevent their going so far as to jeopardize the maintenance of these particular aid programs. In economics particularly, the Soviet commitment to provide China with some 291 major projects was regarded as the basis of China's industrialization program and a continuing necessity if China was to maintain its high rate of industrial growth.

On the Soviet side the Chinese payments for this aid in the form of industrial raw materials and agricultural products, although adding only a minor fraction to total availabilities of such items in the USSR, filled some critical needs and enabled the Soviets to conserve foreign exchange and divert labor and other resources to industry. These considerations led the ERA, and other intelligence observers, to continue into the 1960's to predict the durability of the Sino-Soviet alliance with both partners realizing "the common need, mutual advantages, and the possibilities for fruitful years ahead." 10/ A serious rift in the alliance was seen as a possibility only when China

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possessed sufficient economic independence from the USSR "to alter the character and totality of forces which unite the Alliance today." This contingency was estimated to be at least a decade away. 11/

These judgments were repeated, although with less assurance, in the fall of 1960 after the first significant reductions in the number of Soviet technicians in China had been noted. To the extent that the withdrawal of Soviet technicians in mid-1960 was greater than justified by the completion of aid projects, it was viewed as reflecting a Soviet "decision to admonish rather than a resolution to punish, for the USSR, no less than China, is keenly aware of the grave political and economic consequences of an excessive reduction or severance of Soviet technical aid to China." 12/*

The first really somber note in ERA's assessments of China's economy appears to have been in a

* The depth of the Sino-Soviet rift in 1960 was no more realized by other elements of the Agency than by ORR. A CIA Task Force, chaired by [redacted] of ONE, was set up on 21 September 1960 to examine the problem. After an exhaustive weighing of the evidence, this task force concluded in December:

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Current Support Brief issued in early March 1961. 14/ It noted two severe setbacks to the Chinese economy in 1960: a second consecutive year of poor harvests and the USSR's recall of its industrial technicians in China. On the strength of these developments and other evidence, the ERA reduced its estimate of the increase of GNP in 1960 from 13 percent to 8 percent. It noted that projection of economic growth rates over the next five years had "suddenly become more difficult because three basic assumptions have been cast into doubt." These were (1) continued Soviet aid; (2) increasing agricultural production at an average annual rate of at least 3 percent; and (3) leadership that "would be vigorous and responsive to the problems raised by the increasing complexity of the economy. 15/ These judgments were reflected also in the special estimate prepared in the spring of 1961 to consider the seriousness of the Chinese economic situation. 16/

After the rift with the Soviet Union was finally accepted as bonafide and given appropriate consideration in the long-range assessment of the Chinese economy, major intelligence interest shifted to the food situation. Following a record harvest in 1958, a prolonged period of unfavorable

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weather had set in, and the management errors associated with the "great leap forward" program aggravated China's agricultural problems. The trend of increasing agricultural production which had been sustained since the Communist takeover in 1949 was halted and then reversed. From 1959 to 1961, agricultural production fell far short of normal requirements, while the population increased by some 60 million persons. The excesses and pressures of the "great leap forward" program led to falsification of statistical reporting at local levels so that the regime itself appears to have been unaware of the seriousness of the situation until late in 1960. It became necessary to curtail the exports of foodstuffs, and in 1961 China began to import large quantities of grain, mostly from Canada and Australia. Some starvation was reported, but the devastating famines that had plagued China in the past were not repeated, probably because the regimentation of society made more efficient distribution possible. Nevertheless, widespread malnutrition was leading to a high incidence of deficiency diseases, apathy, and fatigue and to an increase in the death rate.

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This situation was of considerable interest to US policymakers in both the legislative and executive branches. This interest peaked in the spring of 1962 when the flow of refugees to Hong Kong reached unprecedented heights. In April 1962 an unclassified report on the food situation 17/ was furnished to Congressman A. Paul Kitchin, Chairman of the Committee on Export Control of the House of Representatives. At the suggestion of the DDI, ORR started in March to issue monthly reports on the food situation for the use of the executive departments. Regular recipients of this series included a number of key Kennedy Administration leaders, such as McGeorge Bundy, Walt W. Rostow, General Maxwell Taylor, and W. Averell Harriman. The series reverted to an ad hoc basis after the October 1962 issuance, as significant information reports became more sporadic and as the situation temporarily eased with the harvest cycle.

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D. The Support Function

As will be brought out in subsequent chapters, one of the major forces impelling the ERA to work on the Free World was the broadening of its policy support role. It should not be inferred, however, that the Area's support function was insignificant

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prior to this development. It had in fact become well established with respect to the Communist countries in the 1950's. Volume I has described some of these support activities and the contributions to other offices in the DDI area: OCI, ONE, and OBI.* Some note should also be taken here of other ERA support activities of the late 1950's and early 60's both inside the Agency and for other government consumers.

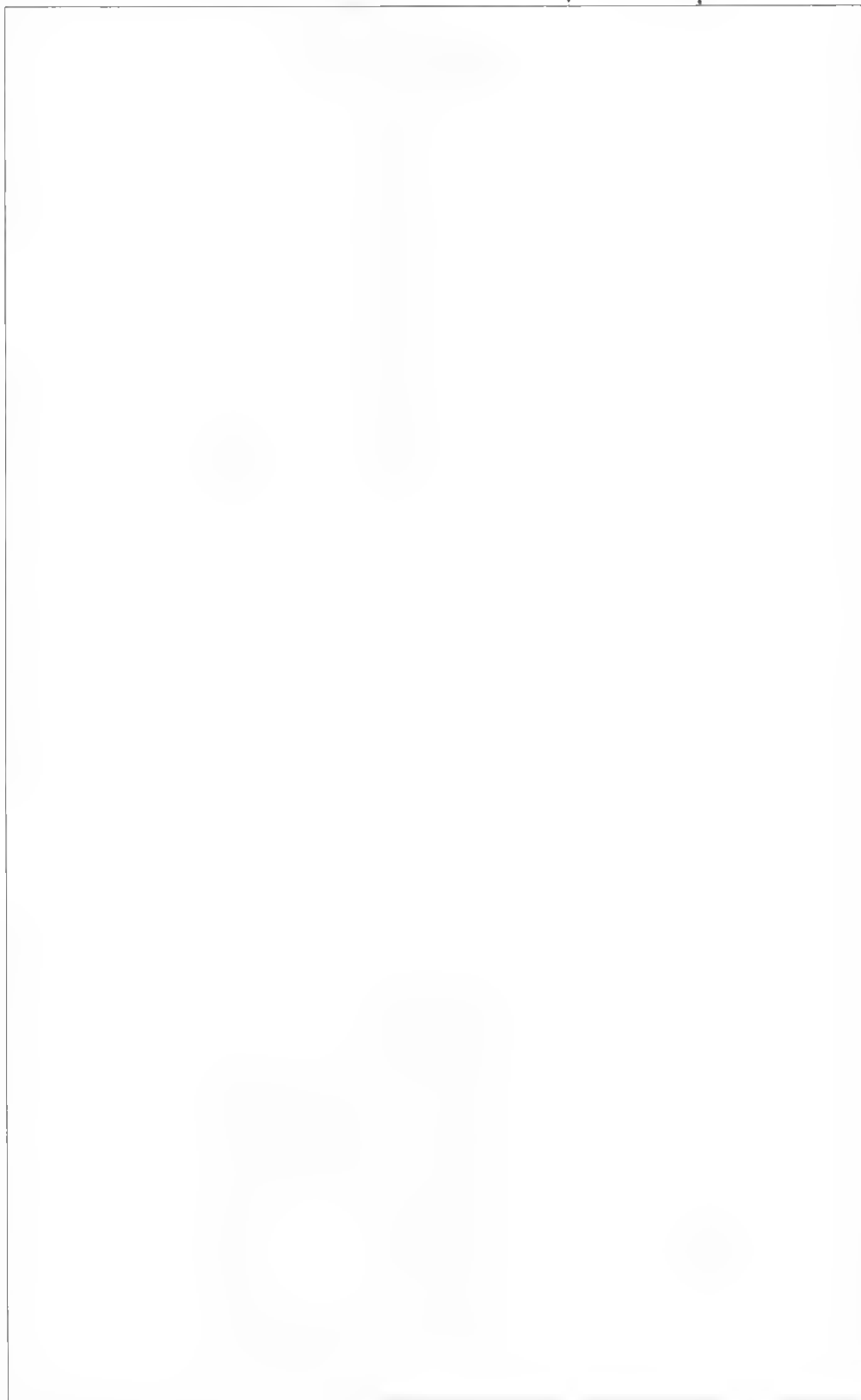
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* ORR's relationship with OSI, the other major substantive component of the DDI (until 5 Aug 1963), was less supportive than complementary. With respect to Sino-Soviet development in fields that involved both offices -- nuclear energy, missile and space activity, automation, etc. -- the arrangements was that OSI would exercise responsibility for reporting on research and development in these fields, while ORR would take responsibility when the activities moved to the production stage. Obviously there is a gray area of potential friction here, but in retrospect the not infrequent conflicts of jurisdiction and of substantive understanding have not prevented a healthy and essentially fruitful relationship.

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2. Economic Defense

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Although ORR's role in economic defense is beyond

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defense are beyond the scope of this history, it should be noted here that in addition to those within ORR charged with responsibility for economic defense, many of the components of the economic research divisions gave considerable time and effort to this activity.

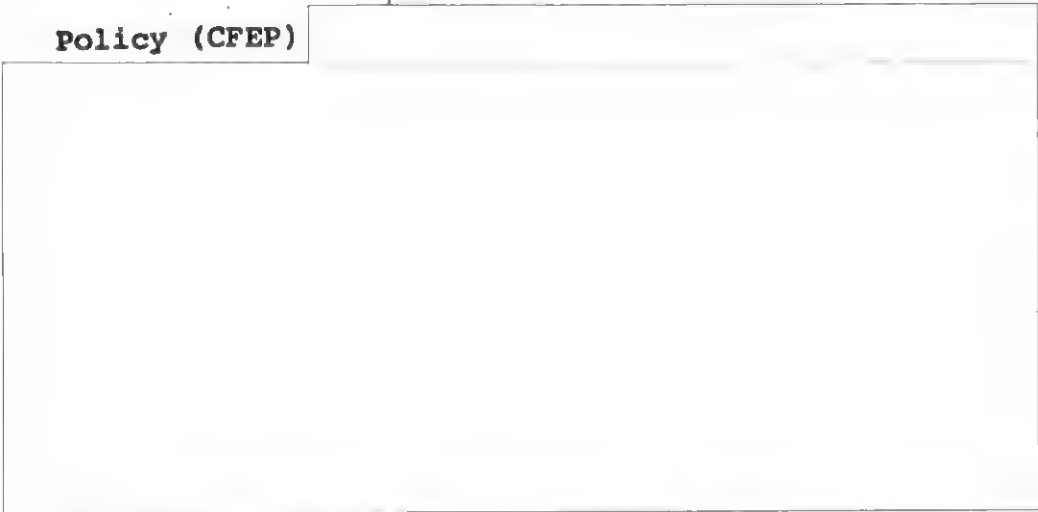
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Other "traditional" support activities of the 1950's have been alluded to in previous chapters.

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Within the intelligence community the committee structure of the Intelligence Advisory Committee (IAC), later (after 15 September 1958) the United States Intelligence Board (USIB), received regular support from the ERA. Naturally the Economic Intelligence Committee (EIC) was the committee most involved, but the Joint Atomic Energy Intelligence Committee (JAEIC) and the Guided Missile and Astronautics Intelligence Committee (GMAIC) also received significant and continuing support. Although most of ERA's findings on Bloc economic activities in the Free World were put out in EIC publications, there were regular contributions on this subject to the Council on Foreign Economic Policy (CFEP)



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E. Assumption of Additional NIS Responsibility

In 1961 the Department of State withdrew from the National Intelligence Survey (NIS) program

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because of the decision by Roger Hilsman, appointed by President Kennedy as Director of INR, to focus his reduced staff and facilities on policy-oriented activities. State's responsibilities in the program had included the production and maintenance of the NIS economic sections on all non-Bloc nations. Most of the burden now fell upon the Agency and was assigned to a new Research Division in the Office of Basic Intelligence. ORR initially assumed responsibility for only two sections -- Section 44 (Manpower) and Section 46 (Public Welfare) on countries of the Sino-Soviet Bloc. This was, however, only the first step in ORR's assumption of increased NIS responsibility. Barely a year later, the new DDI, [redacted] abolished OBI's Research Division and assigned its responsibilities to ORR and OCI. As described in Chapter V, this was an affirmation of ORR's broadened responsibility for economic research on the Free World.

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This brief review of the Economic Research Area's support role as it entered the 1960's attests to the increasing demand within the government for economic intelligence on the Sino-Soviet Bloc. But there was a parallel and as yet unsatisfied demand for other kinds of economic

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intelligence -- a demand that could be satisfied only by a reordering of priorities and a reorganization of ORR's resources, which came to fruition in 1962.

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Chapter II

1962 – THE YEAR OF NEW DIRECTIONS

... Intelligence on the Cold War is simply inadequate.



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The year 1962 was in many respects climactic in the history of economic intelligence. For ORR it was marked by unprecedented demands for policy support, by the proliferation of new duties, and by the most significant reorganization in the Office's history to that point. It was also, of course, the year of eyeball-to-eyeball confrontation with the Soviet Union over the installation of offensive missiles in Cuba and of the Sino-Indian border war, and ORR was heavily involved with these dramatic events.

A. Reorganization of 1962

1. Background

Developments in the international situation, in the operational philosophy of the executive branch of the Government, and in the intelligence community itself combined in 1962 to evoke a major reorganization of ORR. As pointed out in Volume One, Chapter II, the formal division structure established under [] proved both durable and flexible in its responsiveness to the changing

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demands for economic intelligence during the 1950's. The organizational changes that took place at the divisional level in that period were administrative rather than substantive in nature -- that is, the elimination of the Strategic Division was an administrative necessity in the course of establishing an all-source research organization, while the initial restructuring of the Analysis Division was for the purpose of separating operational support from intelligence production. Later responses to new substantive demands were handled by changes at the branch level and by the device of the "Task Force." By 1961, however, it was becoming apparent that the existing structure, which had been developed to facilitate an orderly approach to understanding the Soviet economy by roughly reflecting the Soviet ministerial organization, was no longer appropriate to the responsibilities of the Economic Research Area.

Three major developments had taken place to produce a change in the Area's approach to its tasks:

(a) The Communist economic offensive had grown since its initiation after the death of Stalin in 1953 to a major weapon of Soviet foreign policy.

(b) Communist military power and its economic base had become of increasing concern to US policymakers.

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(c) Intelligence on the Bloc economies had shifted from an emphasis on data accumulation to "problem-oriented" analysis.

The response to the first two developments had been such ad hoc arrangements as the gradual expansion of Trade Branch's Soviet Penetration Section and an increasing levy on other branches for assistance in meeting its responsibilities. In response to the military-economic concern, the guided missile effort -- initially carried out by a small staff in the Industrial Division -- had expanded to a DD/I task force, primarily staffed by ORR personnel with a few detailed from OSI. Meanwhile, many other units in the ERA were working on diverse aspects of the Soviet military establishment. With respect to the overall reporting on the Bloc economies, the estimate contributions dealing with them were becoming increasingly analytical. To support these most important products of the Area, however, much of the research effort still concerned itself with detailed descriptions of production activity and the accumulation and presentation of data on the individual sectors of the target economies. In preparing plans for the reorganization of the ERA, its chief, [redacted] and his deputy, [redacted] hoped that the shakeup

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would not only provide a reallocation of personnel responsive to the new priorities in research, but also make it easier to discourage the "Annual Survey of the Bulgarian Button-hook Industry" type of report that seemed to be the inevitable result of the existing commodity and industry-oriented branch structure. 19/

In addition to the three major substantive developments, there was an increase in both quantity and variety in the demands being laid on the Office as a result of the advent of the Kennedy Administration in 1961. The effect of ORR's having gone, in a sense, "public" in the debate over Soviet economic growth was still making itself felt. In March 1961, for example, Chairman Walter Heller of the President's Council of Economic Advisors wrote to ORR's chief, expressing an interest in the Agency's comparative studies of the US and Soviet economies. 20/ In June 1961, President Kennedy took note of the Soviet challenge in a press conference. He welcomed the competition and noted that if the United States increased its growth rate by one percent -- that is, from 3½ to 4½ percent -- the Soviet Union would not catch up with the United States in this century. 21/

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The new White House team included such people as Walt W. Rostow from CENIS, who were familiar with ORR's work and were now in a position to call upon the Office for special tasks. They were increasingly concerned with the impact of Soviet economic developments on the world at large and were not to be put off by disclaimers of responsibility based upon a precise regard for formal allocations of such responsibility within the intelligence community.

On 18 January 1962, President Kennedy, alarmed at the increasingly menacing posture of the Soviets and the Chinese in support of "wars of national liberation," directed the establishment of a Special Group (Counter-Insurgency) to mobilize the government's resources in preventing and resisting subversive insurgency and related forms of indirect aggression in friendly countries. 22/ ORR had already created a Cuba Branch (9 January 1962) because of the perceived need for economic intelligence

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[redacted] It seemed clear that similar types of support would be called for with regard to other threatened areas. At the very least, a heightened interest in intelligence on Bloc economic and military aid to such areas was anticipated, with a particular emphasis on the impact of such aid.

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On 3 March 1962, Robert W. Komer [redacted]

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[redacted] serving on the White House Staff, wrote to the DDI suggesting the need for analyses in depth of how Soviet aid programs in such major recipient countries as the United Arab Republic, Indonesia, and Afghanistan were paying off. 23/ Such analyses were not to be found in the Community's regular reports of Sino-Soviet Bloc economic activities in the Free World, particularly its economic penetration activities, as embodied in the biweekly and semiannual issuances of the EIC on this subject. These reports had been issued since early 1956 with responsibility divided on the basis of an informal agreement between the AD/RR and the Director of INR in the State Department. The agreement recognized CIA as having primary responsibility for intelligence on the capabilities, actions, and intentions of the Bloc countries in these activities and State as having primary responsibility for

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intelligence on the impact of these activities on the recipient Free World countries. 24/ Administratively this division of responsibilities had been working satisfactorily, but substantively it was clear that State had done little in carrying out its side of the bargain. The EIC issuances were, by State's decision, not addressing themselves adequately to the impact of these Bloc programs. Meanwhile, the State Department's contributions to National Intelligence Estimates on Free World countries were also remiss in this respect. ONE had, in fact, for some time been unhappy with State's contributions on Free World economies and was turning more and more to ORR for assistance in this field. Other agencies were also concerned.

In June 1961

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referred to the Department of State's progressive dismantling of its effort in this field, and wrote:

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State just is not doing its part in Free World underdeveloped countries.

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Equally important, we have recently had to "bail out" ONE by contributing or rewriting the economic part of NIE's on Taiwan, Yugoslavia, Japan, and Brazil and on other developed and underdeveloped Free World countries. It has been fortunate that so far, thanks to ORR's unofficial aid, no serious economic error has been allowed to remain in an NIE. 25/

What ORR regarded as an economic error in judgment did subsequently appear in an ONE paper -- fortunately not an NIE. In December 1961 the ORR review of an ONE memorandum for the Director of ONE on the subject of Finland concluded that economic considerations bearing on Soviet-Finnish relations had been inadequately covered. In so advising the AD/NE, [] pointed out that ORR was ready to be of assistance with background information on those countries where the Bloc was active either through its trade and aid program or through other economic means of penetration. In this case it was the ORR view that ONE had neglected a basic economic fact -- that Finnish postwar development of shipbuilding and metalworking industries to meet Soviet reparations demands had left Finland with a continuing dependence on Soviet markets. 26/

[] reference to the State Department's dismantling was well founded. []

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Another factor leading ORR toward a decision
to assume a greater role in economic research on
the Free World

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On the military-economic side, there were also compelling reasons for an organizational adjustment to the growing demands for policy support. By the end of 1961 the Economic Research Area of ORR had become the principal producer within the intelligence community of intelligence on the production, deployment, logistics, and training factors affecting the operational capabilities of the Soviet guided missile program. The DDI's Guided Missile Task Force, set up in March 1960 under the leadership of [redacted] drew heavily on ORR's capabilities for its personnel and productive facilities.* Intelligence personnel working on Bloc conventional ground, air, and naval facilities had been cut from a peak of more than [redacted] analysts in three separate branches in the mid-1950's to a consolidated Aircraft, Shipbuilding, and Armaments Branch in the Industrial Division with [redacted] analysts, largely * [redacted] analysts were detailed from the ERA to the task force for FY 1962.

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to accommodate this drain on assets. The Soviet missile and space effort also required attention from the ERA units and specialists

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Although not so demanding in terms of manpower, a related and highly significant research effort was also going forward. This was the costing of Soviet military and space programs, including support activities broken down by major mission area -- that is, air defense, strategic attack, ground and naval missions -- together with command and support and residual categories. ORR's pioneering efforts with this research had established the Office's reputation with ONE and other consumers, and there was every reason to believe that demands for contributions would grow.*

* See I, B, 2, above.

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Accordingly [redacted] who had taken the lead in developing the Office's resources in military-economics since 1954, prepared a staff study pointing to the need for increasing the Agency's capabilities for producing military-economic research. [redacted]

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The recent establishment of DIA initially caused some concern about possible charges that ORR was attempting to set up a competing organization before the new agency had been given an opportunity to prove itself. 31/ ORR had, however, developed the capability for, and was being pressed for intelligence judgments on, a wide range of military-economic matters, some of which were beyond DIA's apparent area of concern: the production and deployment of missile, aircraft, and naval systems; the costs and economic impact of military and space programs; and the assessment of economic factors affecting Bloc military policy. The research planned by ORR on these subjects for FY 1963 amounted to more than a quarter of the total research effort, and there was every reason to believe that the burden would continue at an even higher level, in spite of the recent creation of DIA. In fact, the existence of the new DIA could well increase the responsibilities of ORR in military/economics. The preliminary planning for what was to become the CIA-DIA Joint Analysis Group (JAG) was also going on in the winter of 1962.

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Although the plan called for a small [redacted] group, [redacted] of whom on the CIA side would be an economist, it was obvious that the mission -- to develop and keep current a series of projections of Sino-Soviet Bloc force patterns up to ten years in the future -- would require a major economic research and analytical effort calling for a substantial input from ORR.*

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2. The New Organization

The ERA Division and Staff Chiefs, after a series of staff studies and meetings with the Chief and Deputy Chief, ERA, throughout the fall and winter of 1961-62, finally designed an organizational structure which appeared to be responsive to the new situations. Effected in May 1962, the new organization called for five divisions and 29 branches in place of the former four divisions and 20 branches and for an increase in the average grade of the Office from [redacted] but did not change the Office position ceiling

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[redacted] or the estimate of funds needed for the

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* The proportion of ERA research time devoted to military-economics did in fact increase to 37 percent in the research program for FY 1964. Its growing importance led to the establishment in 1964 of an area-level organization, the Military Research Area (MRA), and its ultimate evolution into the Office of Strategic Research (OSR) in 1967.

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coming fiscal year. (The new organizational breakdown of the ERA is shown in Figure 1.)

The Analysis Division under the leadership of [redacted] remained unchanged. The former Materials Division was renamed Resources Division and was increased from five to six branches by the separation of the Fuels and Power Branch into an Electric Power Branch and a Fuels Branch.

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[redacted] remained as Division Chief. The Industrial Division was abolished, with its three military branches going to a new Military-Economic Division. Its two civilian industry branches were consolidated into a Manufacturing Branch. This new branch, together with the Electronic Equipment Branch, was combined with three branches from the abolished Services Division -- Communications, Construction, and Transportation -- into a Manufacturing and Services Division. [redacted]

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Deputy Chief of Industrial Division, became Chief of the new Division. The remaining function of the Services Division, international trade, was deployed within the new International Division as discussed below.

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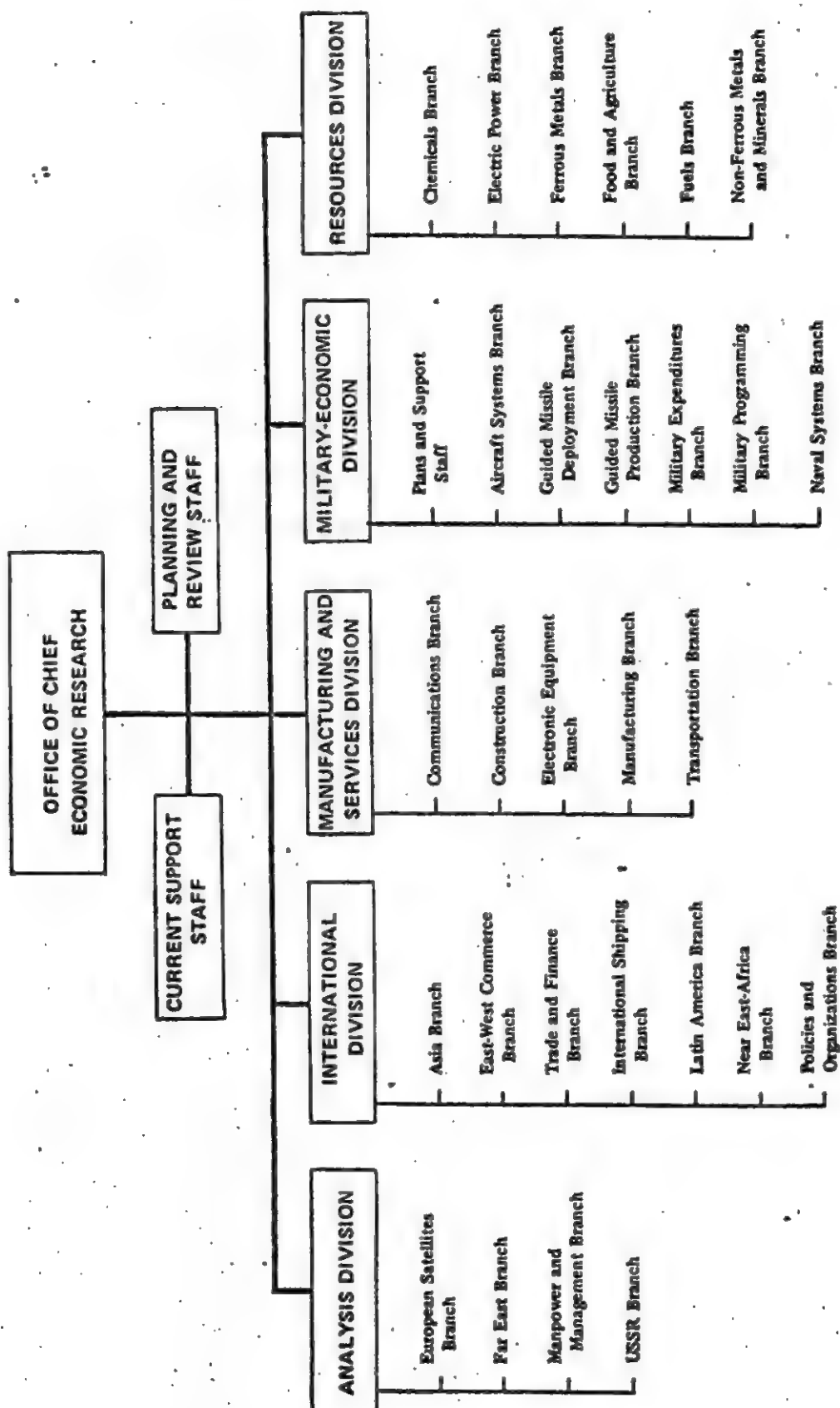
The International Division, under the former Services Division Chief, [redacted] was the

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OFFICE OF RESEARCH AND REPORTS ECONOMIC RESEARCH AREA

April 1962



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major organizational response to the increased effort on the international economic activities of the Sino-Soviet Bloc. Three regional branches were created -- Latin America (a redesignation of the recently established Cuba Branch), Asia, and Near East-Africa -- for the production of intelligence on the impact of the Bloc economic offensive against the countries of their respective areas. The Policies and Organizations Branch was created with responsibility for the institutional arrangements and programs of the Bloc countries in carrying out this offensive. The East-West Commerce Branch was concerned with the Bloc's economic relations with the countries of the industrial West, and thus included the now much-reduced economic defense support activities of the Office. Intra-Bloc economic relations were the responsibility of the new Trade and Finance Branch; and international transportation activities, formerly a function of the Transportation Branch, were assigned to the new International Shipping Branch.

Description of the new Military-Economic Division's breakdown of branches and responsibilities is properly the historical concern of the Office of Strategic Research, its lineal descendant.

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Headed by [] the former Chief of the Industrial Division, it remained a part of the Economic Research Area from its creation in May 1962 until the establishment of the Military Research Area in March 1964. The existence of a separate division for military-economic research made it easier to delineate the strictly economic research function and to relieve the economic divisions and branches of a considerable burden of research responsibility, not only for coverage of production activities in the military hardware field but also for such matters as military programming, weapons system deployment, and civil defense activity. The impact of military programs on the Bloc economies remained a concern of the economic research components, as did the matter of Bloc military aid to countries of the Free World. In addition, as is described in Chapter VI below, the varied military-economic intelligence problems arising out of the Vietnam War fell largely to the economic research components in 1964 and in subsequent years.

B. Economic Intelligence on Cuba

1. Introduction

Although the overthrow of the Batista Government in Cuba occurred on 1 January 1959 and the

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political tilt of the Castro regime revealed itself with Mikoyan's visit to Havana in February 1960 and Soviet economic and military aid agreements soon after, the extension to the Western Hemisphere of ORR's mission of economic intelligence production on Communist countries was not immediate. The only significant intelligence research on Cuba undertaken by ERA during 1959 and 1960 was in connection with the economic penetration coverage and in response to an unusual request for operational support from the DDP. The latter involved a detailed and elaborate study of Cuba's telecommunications facilities. 32/ This crash project occupied the attention of Services Division's Communications Branch for several weeks in the fall of 1960 and also depended heavily on the facilities of the Cartography Division of the Geographic Research Area, which set aside much of its other work for the month of October in order to concentrate its resources on the project. The Publication Staff also found it necessary to take all its typists off regular work for most of the month in order to complete this massive study. None of the analysts concerned with this assignment were witting as to its purpose, but it is obvious, in

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retrospect, that it was for use in the planned operations in Cuba which came to a premature end at the Bay of Pigs. In thanking the DDI for the quality and thoroughness of the project, the DDP,

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2. The Cuba Branch

It was not until late in 1961 that it was decided that the ERA should take on formal responsibility for economic research on Cuba. On Friday, 29 December 1961, the DDI, [] following instructions from the new DCI, John A. McCone, to render full intelligence support to the DDP in developing clandestine operations against Castro, directed ORR to set up a Cuba Branch. On the following Wednesday, after the New Year holiday, it was in business, with [] professionals, none of whom had any particular background in Cuban or Latin American affairs, but who had functional specialties which, it was believed, would be pertinent to the Cuban economy. []

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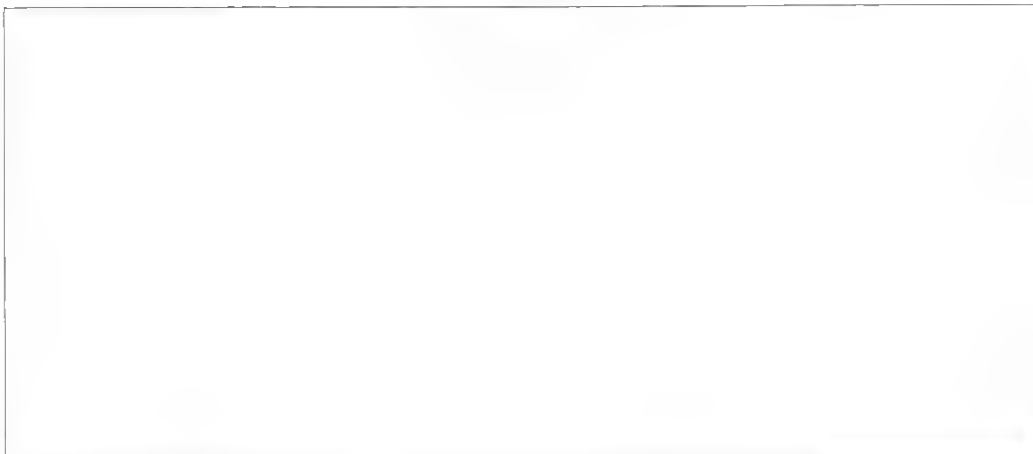
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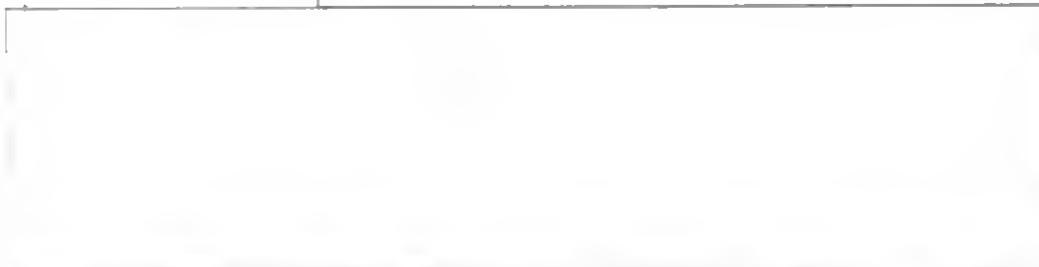
[redacted] On 7 February, it
published its first support project for the DDP,



Other

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reports on the sugar and nickel industries followed.
These reports were designed in part to identify for
DDP exploitable vulnerabilities in the Cuban economy
and were supplemented by specific intelligence sup-
port to clandestine operational planning against
Cuban targets.



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In July 1962, the Cuba Branch prepared an NIE
contribution, which characterized the state of the
Cuban economy as "in the throes of progressive
decline." 34/ An expanded version of this

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contribution was also published as an Intelligence Memorandum, which presented the first comprehensive picture of the performance of the Cuban economy since Castro took power in January 1959. 35/ This proved a very popular publication, receiving wide distribution [REDACTED]

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3. The Missile Crisis

The Cuba Branch (renamed Latin America Branch in the reorganization of May 1962) was joined by a number of other elements of the ERA in providing intelligence collection and reporting support in connection with the Cuban Missile Crisis of October 1962. These elements included the new International Shipping Branch, [REDACTED]

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[REDACTED] The Current Support Staff, [REDACTED] the loan of [REDACTED] from other components, provided around-the-clock coverage during the height of the crisis. One of the key members of this staff, [REDACTED]

[REDACTED] was attached to the ONE Working [REDACTED]

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Group on Cuba, and he became the channel for the ERA's substantial contributions to the many estimates, memoranda, and other documents provided for the DCI and the ad hoc Executive Committee of the NSC, which had been established by President Kennedy to deal with the crisis. All branches of the new Military-Economic Division, especially the Guided Missile Deployment Branch, were heavily involved. After the crisis was over, [REDACTED] described the contribution of ERA's missile deployment specialists as follows:

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The expertise of specialists in electronics, military costing, construction, telecommunications,* transportation, chemicals, and petroleum was also

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called upon, not only during the buildup and at the height of the confrontation but also during the dismantling of the missile sites and the long aftermath period of surveillance which followed.

The contribution of ORR's shipping monitors has been well described [REDACTED]

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Soviet shipping and the operation of the US quarantine were the reporting responsibility of ... an ORR task force which moved into the OCI situation room and worked in close cooperation with the Pentagon to maintain continuing surveillance of Soviet shipping not only on the approach to Cuba, but [REDACTED]

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[REDACTED] This task force dealt with [REDACTED] photography, alongside inspection by US Naval Units, low-level photography and inspection by US military aircraft supporting the quarantine, and whatever other eyeball information might help determine the cargo of the suspect ships...

It was one of the analysts on this task force who first alerted the community to the fact that the Soviet ships heading for Cuba had turned around after the President's speech of 22 October.

...In the spring of 1962 an expensive automated system to account for Soviet ship movements had been set up in Washington. The crisis obviously was the test for this system, for the Soviet reaction to the US decision to blockade Cuba was crucial to

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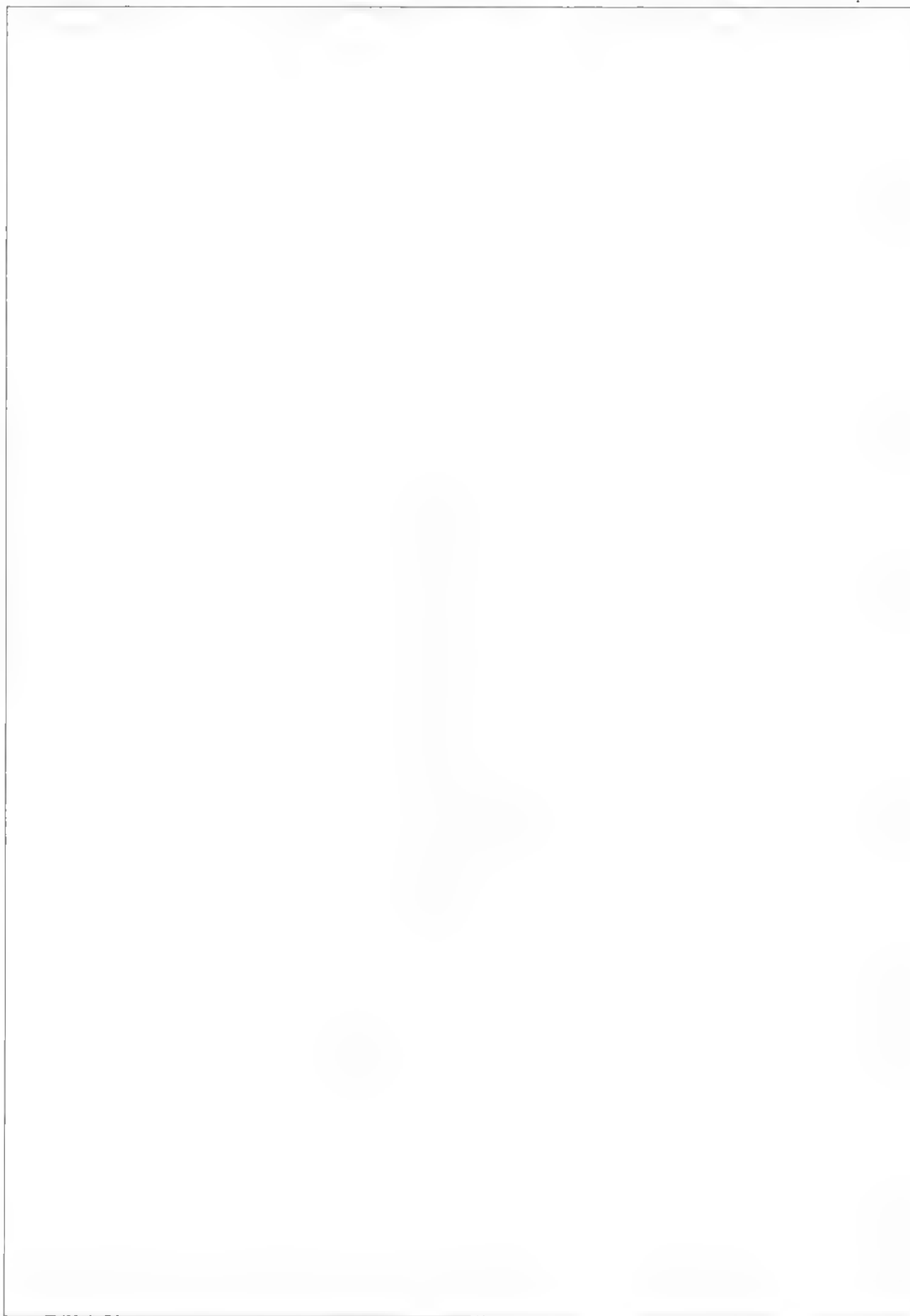
the next US course of action. As Washington waited anxiously for the evidence of the Soviet reaction, the computer spewed forth reams of data on Soviet ship operations and positions, but nothing on the direction of movement. It was an experienced lady analyst on the task force, working with the same data on the dog-eared 5x8 cards she had been using for years, who first noted that the key Soviet ships now were headed east and north, not west and south.

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Indeed, ORR's reporting on shipping to Cuba was a key input to intelligence throughout the whole period of the crisis, beginning in July 1962 and extending well into 1963. And, as pointed out by

[redacted] it provided the clue that the Soviets "blinked first in the showdown."

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The retreat or withdrawal period, of course, also required painstaking [redacted] detailed analysis and reporting of all activities in Cuba. ERA's reporting resulted in a steady flow of support projects, including daily reports on shipping,

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[redacted] eval-uations of proposed economic countermeasures against Cuba, and the like. Even those elements of ERA that focused on Soviet domestic activities sharply increased [redacted] in the search for clues of Soviet intentions during the period. This day-to-day analysis, reported to

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the highest levels of government, revealed a complete lack of mobilization activity. 38/ This unheralded contribution to intelligence during a period of great tension must have provided a background of reassurance for the policy decisions that were evoked.

The matter of economic denial measures against Cuba caused the office considerable concern in the post-crisis period. The Clandestine Services were pressing for means to attack Cuba at economically vulnerable points and seeking ORR's guidance on an economic warfare program. For example, the possibility of crippling the Cuban economy by denying it "bright stock"* commended itself to the economic warriors in spite of ORR's insistence that the proposed denial would prove ineffective. Such an embargo was attempted without success. After a grudging admission that "bright is not as economically important to Cuba as we originally believed," DDP's Special Affairs Staff -- nothing daunted -- requested a comprehensive study of Cuba's import and export vulnerabilities to help in the planning and undertaking of further economic denial operations. 39/ The resulting study, although responsive

* A blending agent used in the production of lubricants.

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as to specific strengths and weaknesses, warned that there was little likelihood of causing an economic collapse in Cuba and pointed out the difficulties of achieving effective economic interdiction. 40/ Once again the "bottleneck fallacy" was exposed as it had been with respect to the Soviet Union in the 1950's* and would be with respect to Vietnam and Rhodesia in the later 1960's and 1970's.**

These post-crisis activities contributed to a sustained crisis atmosphere in the Office (and undoubtedly elsewhere in the community as well) which lasted well into 1963. [] was constrained to point out to the DDI in May 1963 the effect that this pressure was having on the Office's ability to carry out its other responsibilities. Among other activities which were being slighted were:

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* See Volume I, pp. 54-55.

** See chapters on Vietnam in this volume (Chapter VI) and Volume III and discussions of Rhodesian embargo in this volume (Chapter V).

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[REDACTED]

It is not recorded whether this plea had any effect, but it is evident, as noted elsewhere, that requests for policy support not only on Cuba but on a worldwide basis were steadily increasing, and the ability of the Office to maintain an orderly program of planned research would continue to be sorely tested.

As the missile crisis subsided, a paper that had a certain propaganda impact was written in response to a request from Walt W. Rostow, then head of State's Policy Planning Staff, for an estimate of the cost of the Sino-Soviet Bloc* of economic support to Cuba. The response, which approached the problem by detailing the Bloc's net export surplus vis-a-vis Cuba, the subsidy involved in Bloc payment of a premium price for Cuban sugar, and certain other tangible and intangible items concluded that Cuba would require a subsidy of \$350 to \$450 million in 1963. 42/

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* This term was still in use at the time, although the Sino-Soviet rift was becoming increasingly evident.

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The postmortem on the Cuban missile crisis by the DDI area included two basic studies issued early in 1964. The DDI Research Staff paper entitled The Soviet Missile Base Venture in Cuba examined the Soviet buildup within the broad context of Soviet foreign policy, while ORR's study concentrated on the hard facts of the buildup against a background of Soviet military and economic relations with Cuba prior to 1962 and set forth the evidence on the buildup, and the details of the Soviet military forces in Cuba and of their subsequent withdrawal. 44/

C. Sino-Indian Border War

Overshadowed by the Cuban crisis, but nonetheless considered a grave threat to the Free World, was the Chinese invasion of India in October and November 1962. Tensions had been developing for some time as China accumulated troops and supplies in Tibet and established pressure points on the Indian frontier in Ladakh (Kashmir) and along the MacMahon line in the North East Frontier Agency. Frequent border clashes throughout the year culminated in a large-scale Chinese attack on the Indian

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defense positions on 20 October. The inability of the Indian forces to stem the advance brought the Chinese to the edge of the Assam plain by mid-November, but soon thereafter China declared a unilateral cease-fire and gradually withdrew its forces behind its own (i.e., Tibetan) borders by the end of the year. While most of the community's eyes were still on Cuba, the Construction, Communications, and Transportation Branches became heavily involved with supportive studies for the US policymakers with respect to the border war.

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The Transportation Branch's report examined in detail the logistical and operational problems involved for China in the conflict and provided estimates of the size of forces that could be employed against India. 45/ It was produced on a crash basis and was the only guide available to US policymakers for several weeks. The Far East Branch of Analysis Division prepared a crash project on the economic capability of China to sustain a military operation against India, 46/ while the new Asia Branch of International Division was busy with a similar project on India's economic

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capabilities and the state of her defense industry. 47/ The former report concluded that the Chinese economy would have little difficulty in supporting military operations on the scale then existing. It also considered the economic impact of acceleration in the level of military activity and concluded that a significant step-up would be possible if China were willing to accept considerable diversion of POL and related supplies and to undertake a major roadbuilding effort. With respect to the Indian economic capabilities, the second report noted that because Indian economic plans had been based on the assumption of no major hostile threat to the country, domestic defense expenditures had been maintained at a minimum level. The sudden Chinese aggression required a revision of this assumption and a consequent reallocation of resources toward defense and defense supporting industries. The ORR study concluded, however, that because of the existence of widespread underemployment of labor and capital resources in India, such a reallocation was well within Indian capabilities and need not be injurious to economic growth. However, India's desire to get military production

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rolling quickly created a need for foreign assist-
ance under liberalized credit terms in view of
the foreign exchange shortage.

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Chapter III

FALTERING ECONOMIES BEHIND THE CURTAIN

"A police state finds it cannot command the grain
to grow."

John F. Kennedy

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With the demands for economic research on the Free World and on the military-economic activities of the Communist World burgeoning, some of the traditional research of the Economic Research Area had to be curtailed.

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Military-economic intelligence on the Soviet Union was, of course, in great demand. The drain on the resources available for strictly economic research was felt not only in terms of the manpower buildup of the Military-Economic Division but also in an increasing number of projects [REDACTED]

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[REDACTED] undertaken by the functional branches in the other divisions in support of the military-economic activity.. [REDACTED]

[REDACTED] in large part the aftermath of the Cuban missile crisis, which was bringing requests for intelligence with great frequency and

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demands for considerable detail [redacted]

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Research on the Communist world after mid-1962 continued to produce significant findings [redacted]

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[redacted] In fact, with the developing emphasis on policy support, these findings appear, to a greater extent than in the 1950's, to have had a direct bearing on a number of significant US Government actions. The Communist economies were coming into hard times in this period, and ORR's pinpointing of their weaknesses provided material contributions to the decision-making process as new US policies were developed to exploit these weaknesses.

B. The USSR

1. The Burden of Military Programs

Analysis of the Soviet economy in 1963-64 was focused particularly on the Soviet decisions regarding resource allocation. It was becoming obvious that under the euphoria of impressive accomplishments in the 1950's and the hope of "catching up" with the United States and with the burden of increasingly complex military and space

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space programs, the USSR was suffering from an overcommitment of resources. The biggest commitment and the one that was clearly holding back the advance of the overall economy was the allocation of resources to the military. Analysis of this military burden and its effect on the economy was, therefore, of major concern to the intelligence community and to the policymakers.

In February 1963, Secretary of Defense McNamara wrote to DCI McCone questioning recent estimates of Soviet ground force strength. He suggested a thorough review of the problem by CIA and DIA and emphasized that it was essential that "all estimates of Soviet force levels be required to meet reasonable tests of economic feasibility." 48/

In spite of the Secretary's expression of concern, DIA did not prove responsive to CIA's efforts to mount a joint attack on this problem. The new Agency, in existence for only about two years, was, in ORR's view, still floundering with growing pains. [REDACTED]

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ORR's work on Soviet military expenditures served as inputs not only to the military capabilities estimates and similar finished intelligence in this field but also to the broader assessments of the Soviet economy. Thus Secretary McNamara's expressed wish that estimates of Soviet force levels be required to meet reasonable tests of economic feasibility was being met, in the sense that the Soviet allocation of resources to

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military and space activities was a major subject of concern to ORR's "aggregative" analysts. In fact the judgments that were being made with respect to the Soviet economy in this period stressed that the acceleration of military and space spending was the most important cause of the Soviet's economic difficulties. Hence NIE 11-5-63, Soviet Economic Problems, based primarily on ORR's draft, stated:

The growing military burden, together with rising space expenditures, has in recent years increasingly held back the advance of the Soviet economy. This effect is particularly noticeable in the industries producing machinery and equipment, where weapons and other military hardware compete directly for resources with industrial, agricultural, and transportation equipment and consumer durables. The production of machinery and equipment for nonmilitary users, which increased by an estimated 14 percent or more annually in the years 1955-1958, grew at a rate of only nine percent or less in the ensuing years. Production for the military, on the other hand, which declined slightly in the earlier period, rose by an estimated average of 13 percent per year after 1958. Moreover, it seems that orders for military and space programs have enjoyed priority in the competition for specialized, highgrade resources, such as design engineers, highly trained technicians, and high-quality materials and components.

We estimate that military and space programs consumed in 1962 over 35 percent of the Soviet production of durable goods, as compared with about 25 percent in the

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US Investment in machinery and equipment increased by 16 percent annually from 1955 to 1958 but only an average of about 9 percent per year subsequently. This factor, along with difficulties in the planning and completion of new construction, explains the drastic slowdown in the growth of investment, which rose by only 4 percent in 1961 and 4 or 5 percent in 1962 after increases of 14 percent or more in the years 1956-1959.

Under the impact of these problems, the post-Stalin improvement in Soviet living standards has begun to slow down perceptibly. The leveling off in agriculture, where net output in 1962 was about equal to that of 1958 but had to support 14 million additional people, is the major cause of this slowdown. In addition, however, the continued low priority of light industry in the competition for modern equipment and skilled labor has kept this a backward sector producing shoddy goods which frequently go unsold despite the continuing rise in money incomes. The annual volume of new housing has remained roughly stationary over the last three years.

While per capita consumption is still rising, the declining pace of improvement and the attendant growth of inflationary pressures have not been without repercussions. Certain price and tax measures introduced in 1962 created strong popular resentment and raised fears that consumer interests would be further circumscribed in the future. This was particularly evident in the provincial cities which have traditionally lagged far behind Moscow, Leningrad, and Kiev in quality of consumer goods and the amenities of life; in several locations the decision of June 1962 to raise meat and butter prices was followed by demonstrations and even riots on the broadest scale in many years. 51/

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2. Work on Soviet Agriculture

If the analysis of resource allocation was inevitably a key factor in the understanding of Soviet economic problems, nowhere was this more evident than in the field of agriculture. Since it had long been recognized that a principal key to, if not the Achilles heel of, the Soviet economy was agriculture, ERA's agricultural research was accorded great emphasis in the annual planning and in the staffing of the organization. [REDACTED]

[REDACTED]

[REDACTED] Other persons in the branch also had substantial credentials for their assigned tasks. In one important respect, a number of the agricultural specialists had a significant advantage over most of their colleagues:

[REDACTED]

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a. The Diagnosis of Communist Agricultural Weakness

Soviet agricultural difficulties in the early 1960's were not a surprise to ORR. Even when noting the bumper crop of 1958 (13 percent above the previous year), the Office contribution to

This uncertainty was attributed by

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ORR to the USSR's resource allocation practices

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rather than to any assumption that Communism and agricultural progress are incompatible. This latter bit of conventional wisdom had to be addressed when Soviet agricultural difficulties in 1962 and 1963 and China's severe agricultural problems for an even longer period led a number of observers -- some of them highly qualified agricultural specialists -- to postulate that collectivization as practiced by these countries was incompatible with agricultural success and that they would be unable to solve their agricultural difficulties so long as they remained saddled with a system that stifled production incentives. In ORR's view a good deal of this type of thinking rested upon a faulty analysis of the role assigned to agriculture in Communist countries. The Office stressed that it was primarily a matter of resource allocation. The usual practice under Communism is to gain control over the country's resources and channel the maximum of these resources into the development of heavy industry. The reason for this is, of course, that heavy industry is considered the basis of economic and military power. Consumption and, hence, agriculture are

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regarded as residual claimants on resources because human welfare is fundamentally not regarded as the end reason for economic activity. In terms of mobilizing resources, it was noted, Communist societies do very well compared with Western societies. This was clearly shown in the very high degree of investment as a proportion of GNP which they were able to achieve even in the case of relatively underdeveloped economies. Communist societies could obviously channel their resources into the manufacture of commercial fertilizers, agricultural machinery, and insecticides; into investments in transportation and storage facilities on farms; and into the divergence of the best scientific brains in the country to work on such problems as improvements in feed strains, livestock breeding methods, etc. Instead, however, Communist societies channeled the maximum (and the best) resources into heavy industry and the military establishment. To say that the Communists neglected agriculture was a very different thing from saying that there was something mysterious

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about agriculture which made it incompatible with
Communism.*

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The Office's estimates of overall grain production for the period 1950-57 were in close

* ORR, of course, recognized the fact that, given the opportunity, peasants under Communism will devote more effort to production on private plots, either for their own use or in the limited free markets made available to them, than to production for the controlled outlets of the state.

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agreement with official Soviet statistics. From 1958 on, however, ORR's agricultural specialists noted considerable exaggeration in the Soviet statistics, resulting not only from technical changes in statistical reporting and recording but also from distortion and falsification within the administrative hierarchy. The falsification of statistics at the lower levels undoubtedly stemmed from pressure from above to fulfill the unrealistic pledges made by Khrushchev. 54/ Thus, even the top levels were probably misled, and the full extent of the grain crisis of 1963 was not appreciated by the leadership itself.

b. First Wheat Sale to the USSR

In 1963 the Office's expertise in the field of Soviet agriculture paid off in a significant contribution to policy support. Early in January the White House had been apprised of Soviet agricultural difficulties as revealed by ORR's research. Food shortages (particularly of potatoes) had been observed throughout the northern European part of the Soviet Union, and winterkill was taking a toll of the recently sown grain crop. These difficulties, added to the generally unsatisfactory performance of agriculture in 1962, revealed the pervasive

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and cumulative nature of the problem that Soviet leaders faced. 55/ Noting that unrest and some civilian rioting had occurred in 1962, doubtless caused by consumer dissatisfaction over food supplies and prices, the Office predicted further civil disorders unless such measures as drawing down state reserves and curtailing exports were taken. More detailed analyses of the Soviet agricultural bind in 1963 followed. The Office's published version of its NIE contribution on the Soviet economy referred to agriculture as "the most intractable problem for Soviet economic policy" 56/ and, while acknowledging the unfavorable weather of the past three years, attributed the difficulties primarily to "the unwillingness of the Soviet leadership to commit a higher level of resources to agriculture on a continuing basis."

By midsummer 1963 it was increasingly apparent that prospects for the coming harvest were poor. Agriculture Secretary Freeman and the Department of Agriculture experts who accompanied him on a visit to the USSR in July had observed drought and "spotty" crop conditions, although the Soviets had been hopeful at that time that large-scale imports would not be necessary. At the same time,

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however, the USSR was shopping for wheat in Canada and Australia, and the Soviet Grain Commission in Canada had informally dealt with a number of US grain dealers, asking them to "feel out" the US Government to see whether a request to purchase US wheat would be honored. In anticipation of a prospective request, Theodore Sorensen, Special Counsel to President Kennedy, convened a White House meeting on 24 September 1963. The attending experts, including ORR's [] were requested to consider the implications of such a sale. ORR was well primed to furnish support on the subject -- a recent ORR report had reviewed the world wheat situation. Although increasing world wheat surpluses were expected, with strong competition by the exporting countries for existing markets, the Communist Bloc would be a net importer. The Chinese had been making large purchases for several years, and Soviet production was burdened by commitments to the European Satellites. 57/ A comprehensive report on the stagnation in Soviet agriculture 58/ and another on Soviet wheat purchases in Canada 59/ had been disseminated during September, providing background for the upcoming policy decision. The latter

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report indicated that the Canadians had been unable to commit as much wheat as the Soviets were seeking and that the Soviets would need more to meet their own export commitments to the European Satellites and Cuba. Guidance on the policy implications of an unprecedented sale of US wheat to the Soviet Union came from various sources. The Departments of State, Agriculture, and Commerce had, of course, prime responsibility for considering the foreign and domestic political aspects of the deal, but ORR handled the economic issues. In essence, the ORR response covered the following points:

(1) The 1963 grain harvest in the Soviet Union was significantly smaller -- perhaps one-fifth below that of 1962 -- and with similar poor harvests in the Satellites, the Soviets needed some 9 to 10 million tons of wheat to cover their domestic needs and export commitments. With about 8 million tons under purchase agreement from Canada and Australia, 1 to 2 million tons were still needed. Replenishment of drawn-down stockpiles might raise this figure.

(2) It was doubtful that US sales of wheat would be used to the benefit of Cuba or Communist

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China, and restrictions against reexports, which would doubtless be honored, could be specified in the sales contract.

(3) With large surplus stocks held by the United States it would be impossible for the USSR to manipulate the world wheat market.

(4) Although the existing Soviet grain shortage was a reflection of cumulative effects of several years of poor crops and was probably an extreme case, significant Soviet purchases could be expected in future years of poor harvest.

(5) Commenting on the political aspects of the deal, ORR weighed the argument that a refusal to help the USSR out of its economic difficulties could contribute to a weakening of overall Soviet strength and prestige against the longer range prospect that the USSR's hard currency and gold reserves would be used for the purchase and since these were in short supply, Soviet ability to purchase strategic items would be lessened. A rejection would bolster the arguments of those within the Soviet Union who were opposed to any detente with the United States, while an acceptance would

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improve changes of further meaningful cooperation with the Soviets.*

At the ensuing meeting with Messrs. Sorensen and Bundy, Under Secretary George Ball, and Governor Harriman, these conclusions were presented, along with the pro-sale findings of other departments within the group. The matter was accordingly passed with favorable recommendations to the President for final decision. 60/ On 9 October 1963, President Kennedy announced at his press conference that he had authorized the sale to Russia of more than \$250 million worth of US wheat and wheat flour (amounting to approximately 4 million metric tons). 61/

In his history of the Kennedy administration, Sorensen describes the factors that led to the decision to sell wheat to the USSR in terms that appear to be a direct reflection of ORR's judgments on the subject:

In their rush to develop heavy industry, space and armaments, the Soviets had short-changed investment in agriculture. The collective farms were riddled with inefficiency -- "for a closed society is not open to ideas of progress," as the

* This was a period of "detente" since the nuclear test ban treaty had been signed only a few weeks before and was ratified by the Senate during the same week that the wheat deal was under consideration.

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President had said, "and a police state finds it cannot command the grain to grow." The original soil moisture and productivity in the "New Lands" opened by Khrushchev in Siberia and Kazakhstan had been used up, and a severe drought had held per capita food production to its lowest point in history. Large imports of grain from the West were required; and sizable purchases had already been concluded with Canada and Australia. Soviet exports were insufficient to pay for these imports along with necessary industrial supplies; and the Soviet gold reserve was being drawn down faster than their mines could replace it. 62/

The decision to sell grain to the USSR had significant policy implications for this country. As a tactic in the cold war, it brought into public view the deterioration in domestic food supplies and the resulting popular discontent in the Soviet Union. The necessity of buying grain caused not only a psychological shock to Soviet vanity but also a drain on Soviet reserves of gold and foreign exchange. It may well have fanned the embers of discontent in the European Satellites. With Chinese agriculture also in trouble, the contrast between the agricultural economies of the Communist World and the Free World was marked. When President Johnson took office following the assassination of President Kennedy later in 1963, the US policy of giving publicity to Communist

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economic weaknesses became even more explicit, and the CIA's only press conference, early in 1964, was a direct consequence of this policy.*

C. Communist China

That the Communist Chinese economy was in serious trouble was well established by the end of 1962. The collapse of the "great leap forward" campaign, the rift with the Soviet Union, and several consecutive years of poor harvests had all contributed to the difficulties. China had been forced to make substantial grain imports -- on the order of 5 million tons annually in 1961 and 1962. Chinese announcements of policies of retrenchment and consolidation and a change of priorities to concentrate resources in agriculture and light industry at the expense of heavy industry also attested to the fact that the Chinese economy was in very serious difficulties. 63/

Early in 1963, however, the DDI, noted that "the official word in town seems to be the Chicom's are better off economically this year than last." 64/ He accordingly requested ORR to prepare an "unequivocal statement" on China's economy. ORR's response was that indeed there were

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"bits and pieces of information" indicating a slight improvement in overall economic activity, but that "the depressed agricultural scene colors the entire economic outlook." 65/ It concluded that "Faced with overriding problems of overpopulation, backwardness in agriculture, and a low level of industrial technology, China's prospects for achieving status as a major world power in this decade have vanished."

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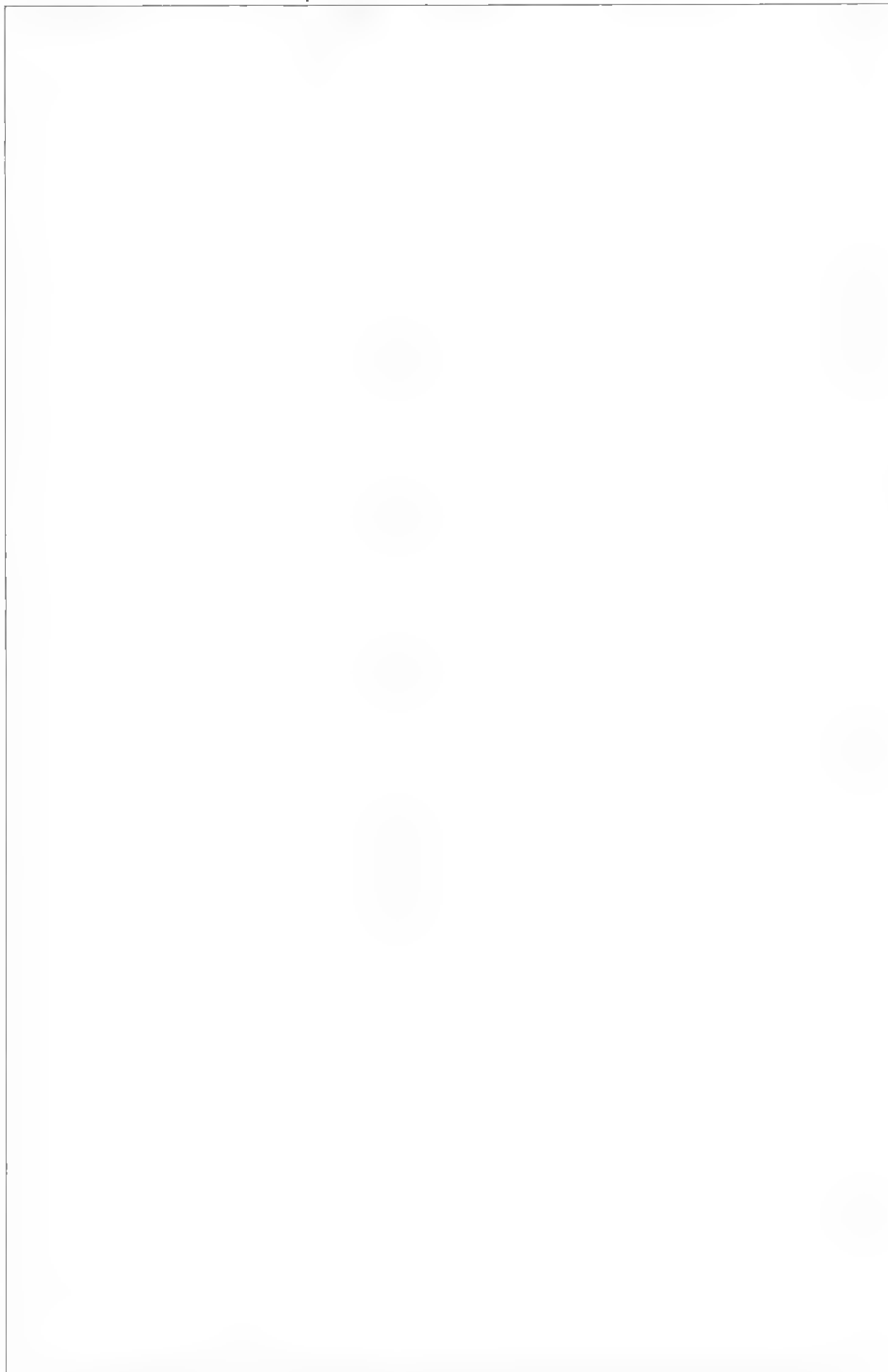
In ORR's view, there were few data that could be put in an input-output table with any confidence. The folly of expending any substantial effort on this type of exercise without reliable data had been well demonstrated with respect to the USSR in the 1950's.*

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ERA's use in agricultural analysis of aerial photography taken by Chinese Nationalist pilots started in 1962. This provided a verification of moisture conditions affecting crop production as well as a check on land reclamation and irrigation programs. 67/

A number of meetings were held with the State Department's China specialists during 1963 to explore further the mysteries of the Chinese economy. ORR's reporting on the subject, although based on thin evidence as to detail, continued to forecast poor economic performance, and it appears that State did not maintain its disagreement. ERA's contribution to the annual NIE on China in the fall of that year noted that the economy was still operating considerably below the peak level of 1959-60 and that the rate of economic growth through 1967 would be well below that of the mid-1950's. 68/

The estimate it- (b)(1)
self, although stressing the lack of information (b)(3)
and noting that even broad judgments were subject
to error, concluded that because of cumulative

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difficulties in the economy, China could not be-
come a modern industrial state for many years. 69/

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D. Application to Policy

With economic difficulties pervading all parts of the Communist world and with firm evidence that Moscow's domination of the "Bloc" was no longer to be taken for granted, certain US policy opportunities suggested themselves. The sale of wheat to the Soviet Union was one of these. More dramatic, perhaps, was the campaign to publicize Soviet economic problems, undertaken at Presidential direction and kicked off in January 1964 with CIA's first press conference -- the subject of the following chapter.

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Chapter IV

PUBLICIZING COMMUNIST ECONOMIC DIFFICULTIES

"Pst! Want to see some Hot Statistics?"

-Herblock, 1964

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~~SECRET~~A. The CIA Press Conference

On 9 January 1964 the CIA held its first and, as far as the writer can ascertain (1972), only press conference. It dealt with the Soviet economy, and therefore the circumstances that caused it to take place, its content, and its impact are important parts of the history of economic intelligence in the Agency. Unfortunately, its impact was not entirely what had been hoped for. The press seemed less interested in the message than in the medium -- why was the Agency publicizing itself? Did it have some conflict with the State Department over economic intelligence or over policy toward the Soviet Union? Herblock of the Washington Post apparently thought so. He drew a cartoon, showing CIA as a sinister cloaked figure on the steps of the State Department attempting to peddle Soviet economic data to a State Department employee (see Figure 2).

The fact was that the press conference was only one of a number of steps worked out in concert with

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Figure 2

"Pst! Want To See Some Hot Statistics?"



©1964 HERBLOCK
THE WASHINGTON POST

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the State Department for giving worldwide publicity to the weaknesses in the Soviet economy. In December 1963, two weeks after President Kennedy's assassination, the DCI, John A. McCone, had given a briefing to President Johnson and the National Security Council based on ORR's latest assessment of the Soviet economy. The main points in this assessment, which indicated a marked reversal since the last exposure of Agency views on the subject, were as follows:

(1) Growth of Soviet GNP in 1963 would be about 1½ percent.

(2) Growth in 1962 had also slowed, so the average of the two years was only 2½ percent, markedly lower than the previous rates of 5 and 6 percent.

(3) Agriculture accounted for a large part of the slowdown in both 1962 and 1963, but not all of it. Industrial growth had also slowed noticeably since 1958.

(4) In trying to raise meat production, Khrushchev had prodigally used up his surplus grain production of the preceding years, 1958-1961, and had much smaller grain reserves than CIA had previously estimated.

(5) The slowdown in industry was in large part the result of competition of defense for scarce investment and R&D resources.

(6) Gold production and stocks were significantly lower than current public estimates.

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(7) The Soviet campaign to obtain long-term credits from Western Europe for the purchase of advanced Western equipment was a natural consequence of its dwindling gold stocks. 71/

The President suggested that these facts be made public, and accordingly McCone, after discussing the matter with W. Averell Harriman and G. Griffith Johnson, respectively Under Secretary of State for Political Affairs and Assistant Secretary of State for Economic Affairs, ordered that:

the information which we had developed on the Soviet economy in general, Soviet agriculture, the trends of Soviet foreign aid commitments, the lag between commitments and drawdowns, the facts about the Soviet gold and foreign currency reserves and the imbalance between the sale of gold and their production of gold, all should be brought to the attention of the people throughout the world -- my purposes (are) twofold: One, factual knowledge of the Soviets' precarious economic situation would have a considerable influence on the "undecided" leaders of many countries throughout the world ... if these men understood the facts, they would realize the precariousness to themselves of depending heavily on the Soviets as an alternate to the United States as a source of help and aid. Secondly, the Western European countries and Japan should understand the situation and should realize that extending long-term credits to the Soviets was precarious. 72/

At about the same time, Harriman had requested that "your analysts on Communist economic matters [ORR]" prepare a 25-30 page summary of current

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economic weaknesses in the Soviet Bloc and Communist Asia to be used "in a variety of ways -- diplomatic, informational, for backgrounding the press, etc. -- to expose the weaknesses of communism and to strengthen the position of the free world." 73/

The joint CIA-State program that evolved before the end of 1963 included such immediate action as: briefings of key press figures [redacted]

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[redacted] a
speech by Richard Helms at the Annual Trustees Dinner of the American Committee for Liberation; a Special National Intelligence Estimate to provide a nationally accepted statement of the primary factors in the assessment of the Soviet economic situation; and provision of some [redacted] ORR reports to the Covert Action Staff of DDP for use -- after sanitization -- in a comprehensive program of dissemination of news releases on a worldwide basis by the Inter-Agency Psychological-Political Working Groups (which included USIA and State). Meanwhile, the preparation of the material requested by Harri-man proceeded. The resulting unclassified report (47 single-spaced pages) entitled Current Economic Weaknesses in the Soviet Bloc and Communist Asia was forwarded early in January 1964.

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The essence of the story on Soviet economic reversals was starting to appear in the US press. The Washington Star of 29 December 1963, naming CIA as the source of the information, carried an article which pinpointed the weakness of Soviet gold holdings and the need for long-term credits. 74/ The New York Herald Tribune carried a similar article on 5 January 1964. 75/ A New York Times front-page article by Edwin L. Dale, Jr., on 8 January 1964, with typical Times thoroughness, was much more explicit as to the facts and figures of the Soviet economic decline, but more significantly in the light of what followed, this article gave particular emphasis to CIA as the source of the information. 76/

The agency was mentioned twelve times in this article and was identified more explicitly than ever before as having

virtually exclusive responsibility in the United States Government for evaluating the Soviet economy. Several hundred economists and other analysts work full time on the question. They primarily use published sources, which are now numerous, but the information is supplemented by some data obtained clandestinely. 77/

The press reaction to Dale's story was immediate.

[redacted] article cited above describes what ensued:

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. . . somehow it caused a furore. Front page, The New York Times, with attribution! The Washington press corps raised an immediate clamor for equal briefing.

In response to this demand the Agency scheduled its first press conference for the following day, at CIA headquarters. Twenty reporters attended. The conference was conducted by the Deputy Director for Intelligence, Ray Cline. A press release, entitled "Soviet Economic Problems Multiply," was passed out. But by this time Soviet economic problems were no longer news. The first question asked by a reporter was, "Why? Why this public apparition, this naked materialization of CIA?"

The DDI replied, "Well, we thought we had a good story, so. . . "

Twenty eager faces radiated frank and open disbelief.

The press conference made headlines all around the world. However, the message of Soviet economic slowdown was subordinated to speculation about CIA's motives in seeking the publicity. The most frequently cited motives were (1) a supposed CIA-State Department conflict over European long-term credits for the USSR -- CIA opposing, the State Department approving; and (2) an alleged attempt to rebuild CIA's public reputation after the Bay of Pigs episode. 78/

The overall purpose of CIA and State in carrying out the President's suggestion had been served, but the publicity to the Agency was distressing to McCone. Orders were issued that thenceforth news media contacts were to be on an individual and non-attributable basis and that the Agency was to

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make no releases of any of its estimates, analyses, or reports, whether classified or not. 79/ The Director's orders were, of course, observed. When ORR next had occasion to release its assessment of Soviet economic conditions [REDACTED]

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[REDACTED] This was in October 1965. The Department's release, which estimated the growth of Soviet GNP for 1965 at 3 percent, was given page 16 attention by the New York Times and caused no excitement at all. 80/

Probably the principal reason why the press reaction to these events was unanticipated was the failure to realize that the press and the public have short memories. In only a few of the articles was it mentioned that CIA views on the Soviet economy had been made public on a number of occasions in the 1950's, principally through the speeches and Congressional testimony of Allen Dulles. In some respects this may have been just as well because the thrust of the earlier releases had been to warn of the strength of the Soviet economy insofar as its ability to support a major military establishment was concerned. Thus an unfriendly newsman by selective quotations from the earlier statements, could have made a case that the Agency was now

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reversing itself. Actually the earlier statements never contended that the Soviet economic momentum would be maintained, nor did the present statements imply that the Soviet economy was no longer able to sustain its military establishment. In fact, the increase in Soviet military spending and the diversion of scarce critical resources in men and materiel to the military establishment were specifically cited as the reasons for the slowdown in industrial output.

In spite of the unanticipated reaction to the press conference, the campaign to spread the message of Soviet economic difficulties went forward.

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[redacted] Briefings were given also to Congressional groups [redacted] and other newsmen.

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The Office was also kept busy assuring McCone that "we really are right," because much of the press comment played up disagreement with the CIA position among academic and other experts, and from such voices of authority as the London Economist. This journal took the position that the Agency's presentation was politically inspired -- as indeed it was -- and went on to note that the "novel figuring put out by Washington's Soviet strategists in their deflating exercise is itself as open to question as the politicalizing behind it ... the validity, and also the consistency, of some of the figures can be seriously challenged." 81/ The Soviet propaganda machine was also turned on in an attempt to prove the CIA figures faulty.

During the course of 1964, most of the dissident voices were stilled. The academic world gradually came around, as reputable economists analyzed the Soviet data and became convinced that CIA methods and procedures were respectable. This process received a boost with the publication by the Joint Economic Committee of calculations by Stanley Cohn with the Research Analysis Corporation. Cohn's calculations

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were explained in sufficient detail to convince other scholars, and his results were reasonably close to CIA's. 82/ In addition, Harry Schwartz of the New York Times acknowledged the validity of CIA's figures in his analysis of official Soviet releases in an article of 23 July 1964. The Soviet releases themselves, together with some rather bumbling letters to US newspapers by Soviet writers, gave the discerning reader indications that the CIA analysis might be correct, an impression that was generally verified when the release of the Soviet statistical handbook for 1963 belatedly took place in 1965.

The press conference episode -- aside from the stir it created -- was significant in the context of the Office's policy support activities of late 1963 and 1964. This was largely because ORR had brought to light an international payments crisis in the Soviet Union. The materials provided for public dissemination were supplemented by classified reports, which were of direct use for policy support. These included:



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The findings of these reports and subsequent analyses were, in summary, that the Soviets were suffering a payments crisis in late 1963, as the culmination of a series of annual hard currency deficits incurred from 1959 on. The crisis itself was precipitated by the disastrous Soviet harvest in 1963, which forced the USSR to draw down its gold reserve to a new low in order to pay for imports of Western wheat, totaling \$800 million in 1963-64. The chronic Soviet deficit, which was caused by the USSR's failure to generate enough exports to pay for its rapidly growing imports of Western equipment, was financed by sales of gold and by drawing on the medium-term credits available in the West. ERA estimates indicated, however, that the Soviet gold reserve had been reduced to around \$2.2 billion by the end of 1962, and to \$1.5 billion at the end of 1964 after payment for the grain imports. Furthermore, drawings against medium-term credits were being largely offset by the growing volume of repayments. The conclusion was that the USSR faced important internal adjustments and a decline in its ability to import Western capital equipment, which would be eased significantly if Western countries came to its rescue with substantial long-term credits.

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ERA was estimating at the time that Khrushchev's expanded chemical fertilizer program alone would require about \$1.5 billion worth of chemical equipment from the West. 83/

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This was a period not only of economic slowdown in these countries but also of striving for greater economic freedom. Romania in particular had shown marked signs of restlessness with the supranational planning programs and policies of CEMA in 1963. 86/ Perhaps fortuitously, Romania was the only Eastern European nation to have a good year in 1963. Whatever the reason, the next several years saw all the so-called Satellite nations seek a more independent course. Although Satellite activity in this respect was in evidence prior to the Agency's press conference,* it is reasonable to surmise that the

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surfacing of Soviet economic difficulties by the Agency gave these nations some ammunition in their pursuit of economic nationalism.

Throughout 1964, ORR's specialists on Eastern Europe watched carefully for and reported on the growing evidence that the supposedly monolithic empire of Soviet Eastern Europe was, economically at least, crumbling. (By the end of 1964, the term "European Satellites" had been largely replaced by "the Communist countries of Eastern Europe" in US government usage.) Frequent scraps of evidence formed the basis for a number of short articles in OCI publications, while more detailed analyses appeared in ORR's reporting. The interest

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of a number of these countries in developing trade with the United States was also noted, particularly in response to the President's policy of "building bridges to Eastern Europe."*

C. Soviet Gold

As noted earlier in this chapter, there was a substantial body of opinion that was initially skeptical about the Agency's exposure of the weaknesses in the Soviet economy. Much of the skepticism concerned the estimate that Soviet gold reserves had fallen to US \$2 billion and that gold production was only about \$150 million annually. The Soviet gold position, a carefully guarded state secret, was revealed by ORR after meticulous research and imaginative use of diverse source material -- a classic case of the "jigsaw puzzle" approach to intelligence so beloved by Agency briefing officers.

ORR's attack on the gold problem involved estimates of annual production, consumption, and sales

* President Johnson, in a speech honoring General George C. Marshall at VMI on 23 May 1964, had noted that "the nations of Eastern Europe are beginning to reassert their own ability... we will continue to build bridges across the gulf which has divided us from Eastern Europe. They will be bridges of increased trade, of ideas, of visitors, and of humanitarian aid." 88/

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over a 40-year period, starting with what was considered a reasonably accurate and reliable figure for former Czarist gold reserves in Communist hands at the end of 1920. Among the inputs in the calculations were Soviet-released production figures for a few of the early years, apparently valid estimates for collections from the Soviet population, acquisitions from Spanish Loyalist sources shipped to the USSR during the Spanish Civil War,

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ation of the Baltic States' gold holdings when these countries were absorbed into the Soviet Union as well as analysis of Soviet reports on percentage increases in production made by the American Legation in Riga (Latvia) for the 1934-39 period, scraps of information from survivors of the NKVD's forced-labor mining efforts under "Dal'stroy" (the Construction Trust of the Far North), the memoirs of an American mining engineer who had worked with "Glavzoloto" (the Main Administration of the Gold Industry) in the mid-1930's, and other bits and pieces of evidence,

[redacted] In the words of the Office's principal researcher on this problem, [redacted]

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The experience gained in reaching this assessment does not point to the development of any standard technique or methodology. The important thing seemed to be a thorough exploitation of all sources and pursuit of every however unpromising lead. Though only about five percent of the leads proved fruitful, those that paid off did so handsomely. Sources ran the gamut from the observations of a Yakut panning for gold in one of several thousand streams in Siberia to reports from the highest levels in Moscow. 89/

On the basis of its elaborate reconstruction of the evidence, the Office reached the conclusion that during the years of Khrushchev's ascendancy, the USSR had steadily drawn upon its gold reserves over and above current production in order to pay for imports of machinery from the West. When it became necessary to import substantial tonnages of grain as well, gold reserves dropped to a low of \$1.8 billion at the end of 1963.

It was not easy to convince observers of the Soviet economy outside the intelligence community of the validity of ORR's estimates. For the Treasury Department's skeptics, a special briefing was given following arrangements for a special intelligence clearance. The Bureau of Mines of the Department of Interior, although it did not publish estimates of the Soviet gold reserves, did estimate Soviet gold production using primarily

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unclassified sources, and its figures were substantially higher than ORR's. The Bureau of Mines estimates led outside observers to calculations of Soviet gold reserves much higher than those put forward by the Office. Such calculations were widely used to cast doubt not only on CIA's estimate of gold reserve but also on its "denigration" of Soviet economic progress in early 1964 and subsequently. When, however, the Bureau of Mines revised its series on Soviet gold production in the 1964 Minerals Yearbook, published in 1965, following a briefing by ORR's experts, the doubts were pretty well eliminated. The British journal Statist noted:

The necessity to resume gold sales on such a scale to pay for its bread is a severe blow to the Soviet Union. The size of its gold reserves, as well as of its annual production of the metal, is one of the best kept Russian state secrets. Until January, 1964, Western sources had placed the value of Soviet gold production at \$300 to \$700 million annually. Soviet gold reserves were held to be worth between \$4,000 million and \$10,000 million. Then the US Central Intelligence Agency startled the world by putting the annual Soviet gold production at only \$150 million to \$175 million, and consequently reducing the estimate of Soviet gold reserves to \$3,000 million in 1956 and to \$2,000 million at the end of 1963.

At the time, many experts received the CIA figures with a good deal of skepticism.

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These figures were also directly contradicted by another US Government organization engaged in estimating Soviet gold production -- the US Department of the Interior Bureau of Mines... The US Bureau of Mines, having so impressively demonstrated its independence of the CIA two years ago, has now published its "Minerals Yearbook, 1964" which drastically revises downwards its estimates of Soviet gold production and reserves over the last ten years. The Bureau offers as its reason for doing so "substantial new information on gold-mining activity in the Soviet Union, which has become available to the Bureau of Mines since earlier Minerals Yearbooks were published." Since the revised estimates agree with those of the CIA it is not difficult to guess who has made the new information available. And it must have been impressive enough to make the Bureau's experts publicly eat a large slice of humble pie.

One therefore cannot but accept the 1964 CIA data as essentially correct, or at worst, as the best piece of informed guesswork we have.

There have been a number of indications over the past few months that the Soviet Government is worried about the state of its gold reserves. The Central Committee of the Communist Party published an unprecedented appeal to the gold miners to exceed their production goals and to reduce costs. The prices in roubles paid Soviet citizens who turned in the gold they held was increased by 40 percent. The penalties meted out to illegal gold dealers had become truly draconian even by Soviet standards. In an attempt to get more hard currency and thus save gold, well-stocked stores and bars were opened in Moscow primarily for foreigners, in spite of the psychologically disadvantageous effect this was bound to have on a luxury-starved population.

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All this tends to confirm that the gold situation in Russia is indeed serious. The crop of 1965 was not as bad in 1963. It was, however, bad enough to make the Government transport probably as much as one third of its gold to its rivals' coffers simply in exchange for the nation's daily bread. Nothing could advertise more strongly the acuteness of the country's agricultural crisis. Speaking at the March (1965) session of the Central Committee one provincial party official said: "If 1963 had been followed by another such disastrous year, I do not know how we should have survived." What we now know about Soviet gold reserves shows that he was not exaggerating. 90/

The Economist also came around to the Agency's view, but after reviewing the evidence and noting in addition that Russian behavior in international markets gave credence to the low reserves estimate, this publication's Foreign Report supplement was ungracious enough to observe:

Naturally, it cannot be ruled out that CIA and the Bureau of Mines are in cahoots; but the Bureau of Mines is a responsible professional body which is not on the face of it likely to have lent itself lightly to the CIA's department of disinformation.

Russian trading behavior had, of course, been an additional element of evidence in ORR's analysis.

Again to quote, detailed analysis:

...in the realm of deeds Soviet behavior has been much more appropriate to a nation with limited and dwindling gold reserves.

The USSR has frequently forgone attractive trade offers when its efforts to obtain long-term credits failed, has lost desired

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deals by insisting on barter arrangements, and has been searching among its products for additional foreign exchange earners. And finally, during certain negotiations on an international gold reserve to which each nation should contribute ten percent of national reserves, Soviet representatives offered, not the \$1 billion appropriate to these public claims, but \$250 million, around ten percent of our foregoing estimate of their reserves. 91/

D. Later Reporting on the Soviet Economy

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The decision not to repeat the press conference did not preclude the occasional use of press contacts to publicize points of interest about the Soviet economy.

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By September 1965, ORR's economic analysts were ready to forecast the USSR's economic performance for that year. With a recurrence of agricultural difficulties, Soviet GNP was estimated

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to be increasing at about 3 percent, compared with
a 7-percent rate in 1964.

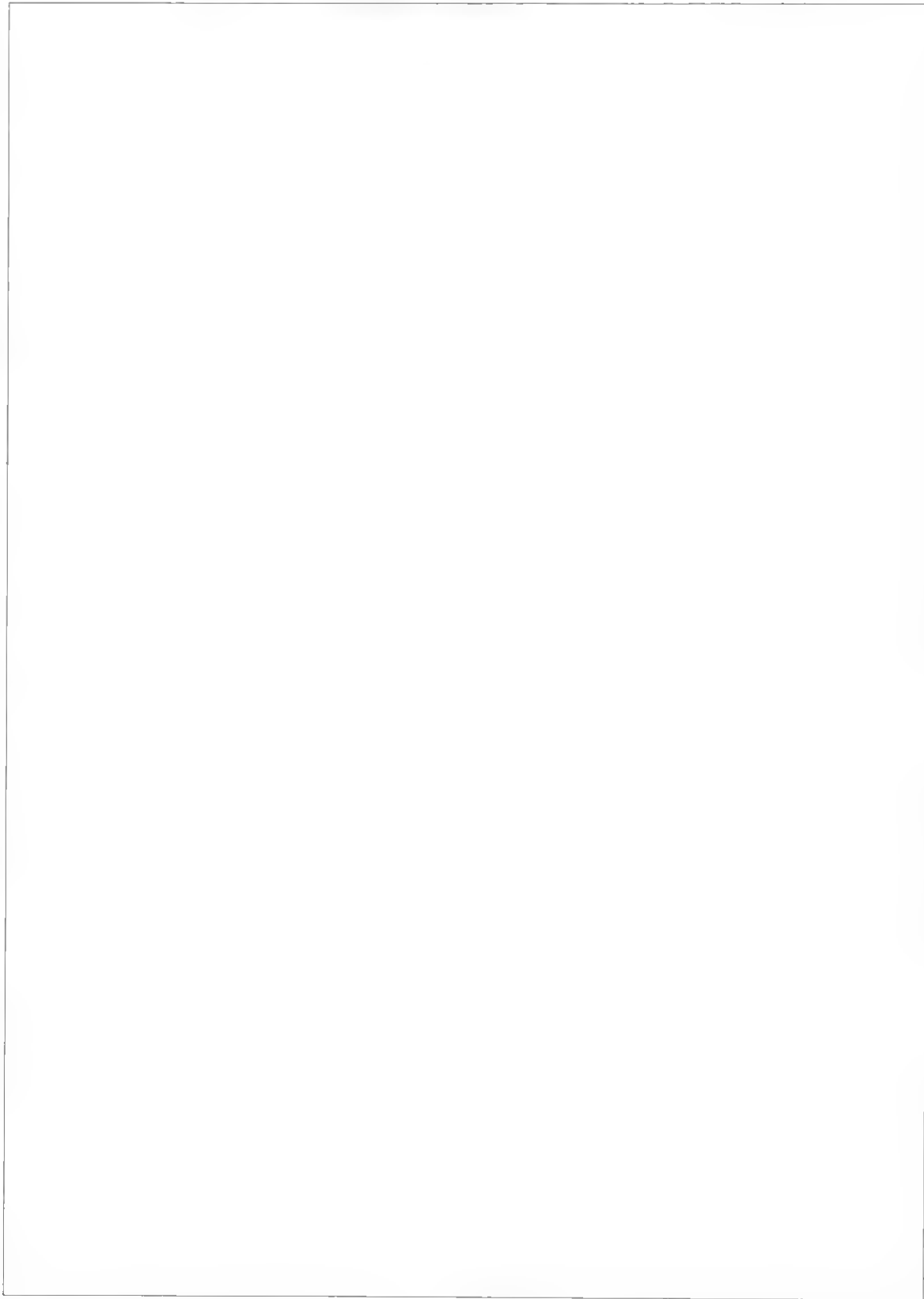
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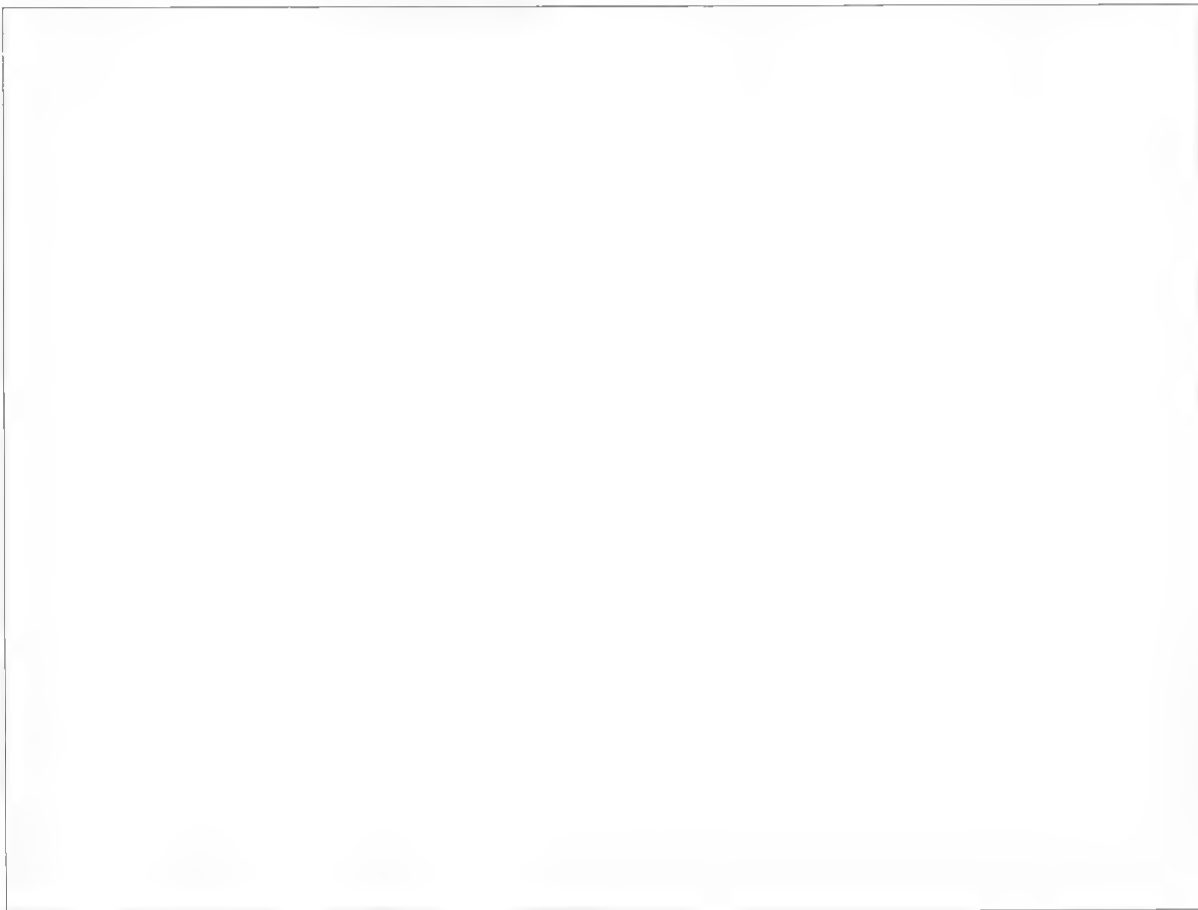
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Chapter V

ECONOMIC RESEARCH ON A GLOBAL SCALE

Pat: Have you ever been in Patagonia?

Mike: No.

Pat: Good, then I can speak freely.

Old story told by

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~~SECRET~~A. Policy Support Drive

Not long after the reorganization of 1962, it became apparent that the area branches of the new International Division would not be able to limit their research to those countries that were the targets of Communist economic penetration activity. Among others, John A. McCone, the new DCI, was requesting support on a variety of countries and subjects outside of ORR's traditional concerns. A DCI action memorandum of 30 October 1962, for example, requested a memorandum on the current situation and economic trends in Western Europe. The resulting paper, prepared in five days by the East-West Commerce Branch, can rightly be regarded as a tour de force, since the branch was not formally organized or staffed for such a task.* 95/

* The assigned mission of this branch was limited, as indicated by its name to the analysis of Bloc economic relations with the countries of the Industrial West. This included the still important export control and other economic defense support activity.

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The major source of the new responsibilities stemmed, however, from the directives with respect to policy support that were issued in the fall of 1962. At the direction of the DDCI, the DDI had set up a Senior Intelligence Officer Team for Policy Support [REDACTED]

[REDACTED] The DDI's Special Assistant for Policy Support, [REDACTED] used the group as a channel to bring to the attention of the substantive offices the principal policy concerns of the White House and other consumers. In spite of the several touchy issues between East and West of that period -- Cuba, Berlin, etc. -- a surprising number of these policy concerns dealt solely with Free World matters. Accordingly, a number of

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requests for economic intelligence support in areas quite new to ORR were forthcoming. The new International Division's area branches, set up for the limited purpose of analyzing the impact of Bloc economic programs on a selected group of underdeveloped countries, found themselves overwhelmed by requests for a much wider range of material on countries in various stages of economic development and with differing economic systems. [REDACTED]

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[REDACTED] the new

branches found the task of responding to these new and unusual requests, often with tight deadlines, formidable indeed. [REDACTED]

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nevertheless, demands filled the pipeline. The probability of egregious error was great. Fortunately it was avoided. If some of the economic intelligence papers on the Free World produced during these early years seemed superficial, they

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[redacted] in terms of the demands made, they filled a definite need.*

Early in 1963, responding to the new demands ORR set up a policy support group, consisting of the Area and Division Chiefs and the Chief of Current Support Staff, and chaired by [redacted]

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[redacted] the DAD/RR. The group's first meeting was held on 16 January 1963 to receive a briefing from [redacted] on the scope of his assignment:

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liaison with McGeorge Bundy's White House Staff and other policy groups on matters of current policy interest. A number of other meetings were held with [redacted] during the year and served to keep the Office alert to White House preoccupations and the shifts therein. It was increasingly apparent that, while interest in the Soviet Union and Communist China was undiminished, there was a growing need to put more and more emphasis on

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the problems of the Free World. The pressure to add more countries to those that the ERA was to "cover" could not be resisted. [REDACTED]

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[REDACTED] It was the consensus of the group that nowhere in the Government was adequate research being done on these countries, and [REDACTED] said ORR should consider assigning analytical resources to this area. Also surfaced at these meetings were other Free World problems that could hardly be related even in an indirect way to ORR's charter responsibility for research on the Communist Bloc. [REDACTED]

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Mean-

while, the demands for day-to-day coverage of Bloc shipping and military aid questions continued.

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As a result of these pressures, [REDACTED]
the DDI, directed that approximately [REDACTED]
of the professional strength of the ERA be shifted

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Concomitant with these organizational charges, the annual research program drawn up on the spring of 1963 for FY 1964 showed significant differences from programs of previous years. Planned research on the Free World [redacted]

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[redacted] of the total and included for the first time a number of self-initiated projects dealing with economic problems of Free World countries. Such titles as [redacted]

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[redacted] appeared for the first time, while the planning for contributions to NIE's included analyses of the domestic economic situations of a wide range of Free World countries. In the military area, the analytical effort was expanded to include such problems as [redacted]

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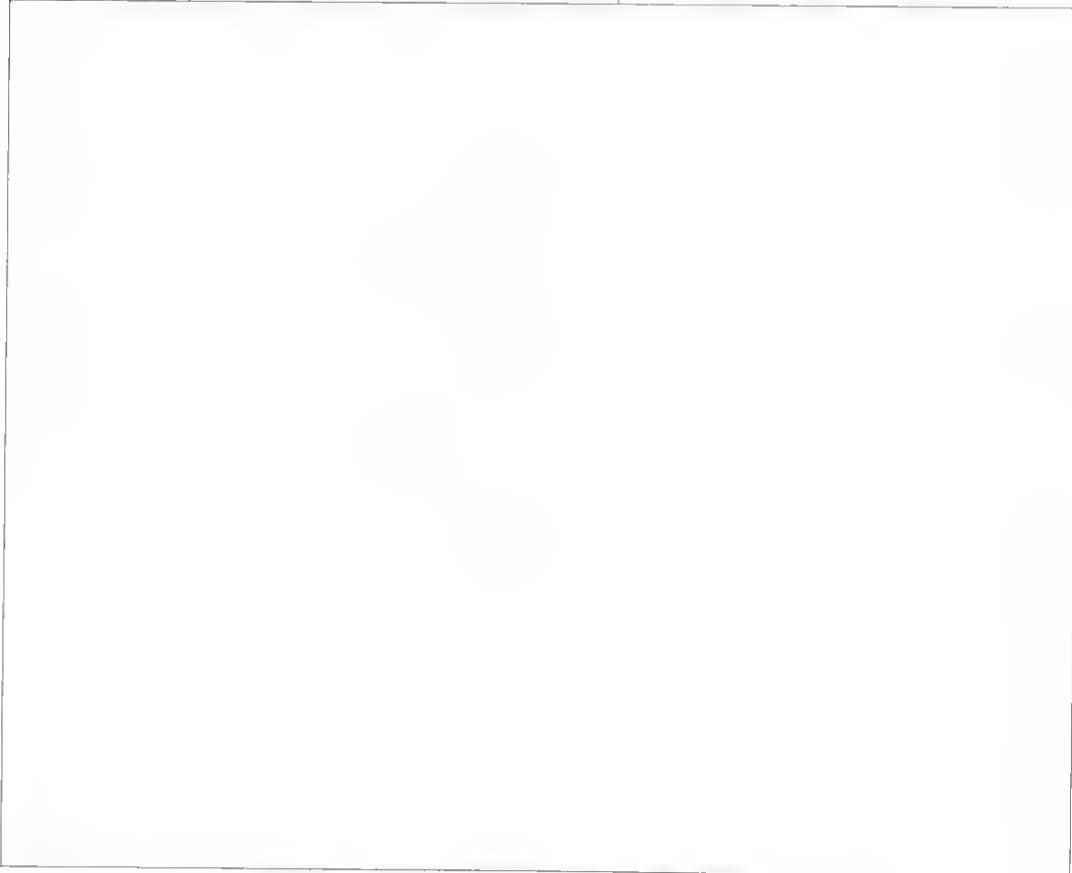
[redacted] Studies of the impact of weapons programs of the Free World countries on their domestic economies were scheduled by the regional branches of International Division. 100/

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B. Conflict with Priority National Intelligence Objectives (PNIO's)

At the same time that requests for ORR policy support on the Free World were burgeoning, the usual pressures for cutting the alleged fat out of Agency activities because of budgetary problems were constantly felt. Not unexpectedly, the best way to justify an activity was to relate it to a high-category Priority National Intelligence Objective (PNIO). There was little difficulty in doing this with the research activities of the Military-Economic Division.



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Thus the PNIO's were relatively useless to the ERA, either as a guide to activity or as an authorization for priority treatment by the fiscal authorities. During the period when economic intelligence was growing in importance to the policymakers and in the range of its concerns, both geographically and substantively, the priority formally accorded to it in the overall scale of intelligence community activities was diminishing -- with unfortunate effects on its resources. At the same time, the dilemma that [redacted] had predicted early in the 1950's was becoming particularly acute. Service to the "clamorous customer" was taking its toll in the area of basic research. The problem was succinctly stated [redacted]

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The management problems created by these bu-
reaucratic considerations presumably were not
unique to ORR. Nevertheless, they demanded of
ORR's leaders

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adaptability and initiative to a degree unfelt in the 1950's. As recounted in the subsequent pages of this volume and in Volume III, the challenges have been met largely by a variety of tactics relative to the Office's consumers and competitors within the community. The first of these tactics was the acquisition of formal authority to do what was being informally demanded of the Office.

C. McCone's Letter to Rusk

With the expansion of ORR's economic intelligence activity to Free World countries, it was not long before concern was expressed that authority for this activity was not clearly established either in Agency Regulations or in DCI Directives. This concern was first officially voiced by [REDACTED]

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[REDACTED] the Comptroller, in mid-1963. He suggested that it might be desirable to propose changes in these documents in order to clarify the Agency's authority to allocate resources to the military-economic and Free World economic functions. 103/ [REDACTED] did not feel, however, that the time was ripe for a formal step of this kind. Although the demands for production of Free World economic and military-economic intelligence were largely caused by the failure of the Departments

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of State and Defense to fulfill their responsibilities under existing DCID's, the Office had not developed, in the year since its reorganization, professional resources adequate to the task of assuming primary community responsibility for these activities. For the time being, at least, it was considered preferable to justify the Office's contributions in these fields as "departmental" -- i.e., as support for the DCI, the DDI, and the Office of National Estimates. 104/

[redacted] reluctance to push too far too fast into State's areas of responsibility was shared in this period by [redacted]

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In 1964 the Inspector General's Survey of the Office noted [redacted]

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These considerations notwithstanding, the pressures for more emphasis on Free World economic intelligence mounted and the need to formalize the authority for doing it became sharper. The final impetus which moved the Office to seek formalization of its role in the production of Free World economic intelligence came from the Bureau of the Budget, and specifically from the former DDI and former chief of ORR, [redacted] had left the post of DDI in April 1962 to become Chief of the Bureau's International Division. His role in the drawing up of DCID 3/1 in 1954 has been described in Volume I.* Although the written

* See Volume I, pp. 67-73.

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record does not make clear his specific views on the Free World matter in 1964, [] recalls that it was at [] behest that the Bureau recommended a reduction [] being allocated to Free World research for FY 1966. 108/

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This would have cut deep into the Office resources and its ability to respond to the demands for support from the DCI, ONE, and the NIS Program, as well as from a growing number of consumers outside the Agency.*

Again, however, it was not believed to be necessary or desirable to revise DCID No. 3/1, which allocated primary responsibility for the production of all economic intelligence on foreign countries outside the Sino-Soviet Bloc to the Department of State. Preferring to rely on the existing language of the directive, [] drafted a letter for McCone's signature, to be sent to the Secretary of State, setting forth the reasons why, as DCI, he considered it appropriate for ORR to produce economic intelligence on the Free World. After several drafts and with the (apparently)

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reluctant) acquiescence of State's Bureau of Intelligence and Research (INR), the letter was sent on 11 March 1965. The letter stated that DCID No. 3/1 "provides that each department or agency ... shall maintain adequate research facilities to accomplish its departmental intelligence production mission, and ... may make such studies as it believes necessary to supplement intelligence produced by other departments and agencies." The DCI noted that he had

found it necessary to develop within CIA a limited capability for all-source economic analyses on non-Communist countries The Clandestine Services require detailed economic analyses based on highly sensitive sources to support certain of their activities in non-Communist areas. The Agency's responsibility to produce, at the national level, timely all-source economic intelligence on current developments in non-Communist areas precludes, as a practical matter, our relying wholly on the other intelligence components of the community.

It also stated that he "must maintain within the Agency the capability of obtaining immediate all-source economic intelligence bearing on critical national policy questions...." Furthermore, the letter reminded the Secretary that CIA had taken over the Department's NIS responsibilities at the request of INR's Chief, Roger Hilsman, and

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accordingly the NIS Committee had allocated to ORR/CIA the responsibility for producing the Section 6 of the NIS General Surveys for the Free World countries. He closed by noting that he considered "DCID No. 3/1 properly interpretable as permissive of these intelligence production activities." (See Appendix B).

To all intents and purposes that ended the matter. It is noteworthy that the Department of State (INR), which had fought stubbornly in the 1950's to keep ultimate responsibility for overall assessments of the Bloc economies* was surprisingly resigned to ORR's entry in the 1960's into its assigned field of primary responsibility. There was obviously some reluctance on INR's part and some informal effort to delay the dispatch of McCone's letter. After this failed, and the letter had formally been sent

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The fact was, of course, that policy officers of the Department itself had frequently

* See Vol I, pp. 67-73.

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been seeking support from ORR on these countries. The Office was providing not only commentary on Policy Planning Council papers on Free World countries, [REDACTED]

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[REDACTED] are to be found in the S-Project log for 1964 with the State Department policy bureaus cited as requesters. The latter project was, as indicated above, prepared for Secretary Rusk himself.

D. McCone's Letter to McNamara

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[REDACTED] As a result, the ORR effort in the field of military economics expanded to fill the gap. The Military-Economics Division, which had been set up to concentrate the Office's resources in this field, was expanded into the Military Research Area (MRA) in March 1964. There were, however, two major categories of military-economic intelligence activity that remained the concern of the Economic

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Research Area. These were the whole spectrum of problems arising from the Indochina conflict (the subject of the following chapter) and the continuing problem of analyzing the strategic impact of major military and space programs on the economies of the Communist countries, chiefly the USSR. The latter problem came to a head in the fall of 1964. Thus at virtually the same time that the organizational and jurisdictional aspects of economic intelligence production on the Free World were a major ORR management concern, the military-economic coverage matter was also being determined.

The problem of assigning more resources to strategic impact analysis was aired at a meeting of the DDI [redacted] the head of CIA/DIA JAG

[redacted] of ORR

in October 1964.

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Because additional slots would be necessary, this meeting was followed by appropriate staff studies and other procedures which resulted in the establishment within Analysis Division, ERA, of a Strategic Impact Task Force [REDACTED]

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[REDACTED] This group, which was to be raised to a Branch when appropriate authority was given,* was to undertake comprehensive studies of Soviet long-run growth prospects as affected by the impact of alternative military programs. Its duties would include specific sectoral analyses of key industries such as elec-

* This occurred in the spring of 1965.

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tronics and analysis of the requirements for scarce categories of trained manpower. It would draw on the MRA's estimates of space and defense expenditures and on the ERA's USSR Branch for its current aggregative estimates of Soviet GNP and components by end use and sector of origin. Thus it was to move the Office's aggregative projections to a new level of analysis involving consideration of alternative military and related programs for time periods considerably in the future and adaptable to the "cost-effectiveness" analysis being used in the forward planning for US defense programs by the Department of Defense. 111/

The ORR proposal was discussed with a number of Defense officials

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It was agreed that the matter should be formalized by a letter from the DCI to

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the Secretary of Defense. 113/ This was accordingly dispatched early in 1965 (see Appendix C). It emphasized the confusion and expense that would result from reliance on external contracts for this type of research and the desirability of central direction, monitoring, and evaluation of this activity by the intelligence community. It also requested the Secretary's endorsement of CIA's intention to negotiate with the Bureau of the Budget for an expansion of its capabilities in the field. The concurrence by Defense was duly accorded in a responsive letter from Deputy Secretary of Defense Cyrus Vance on 5 February 1965. (See Appendix D).

E. Reorganization of 1965

The events described above, culminating in the DCI's letters to the Secretaries of State and Defense, succeeded in establishing within the intelligence community the concept that CIA -- that is, ORR -- had a legitimate role to play in two major areas of national intelligence concern, although the prime responsibility for these areas remained in the hands of the Departments. Meanwhile, reorganization plans were afoot to strengthen ORR's ability to function in these areas.

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the continuing need to shift emphasis from research on industries and commodities in Communist countries to aggregative economic research on Free World countries and on international economic activities of Communist countries, the existing structure of ERA no longer provided the most appropriate mix of numbers and grades to meet the needs of its customers. Implementation of [redacted] proposals to reorganize the area, made in the fall of 1964, was now able to go forward. Within the Economic Research Area, the following changes were made (see Figure 3):

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(1) The existing International Division (D/I) was abolished with its elements disposed as follows:

(a) The Area Branches were realigned and formed into a new Free World Division (D/FW).

(b) The remaining D/I branches, (Trade and Finance, Policies and Organizations, and International Shipping) merged with the service industry branches of Manufacturing and Services Division (Transportation, Construction, and Communications) into a new International Trade and Services Division (D/IS).

(2) The remaining branches of Manufacturing and Services Division (Manufacturing and Electronic Equipment) were merged with the Resources Division to form a new Resources and Industries Division (D/R).

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FIGURE 3

Reorganization of the Economic Research Area, ORR
7 May 1965Analysis Division

USSR Branch
Far East Branch
Eastern Europe Branch
Manpower & Management Branch (abolished)
Strategic Impact Staff

International Division

Asia Branch
Latin America Branch
Near East/Africa Branch
East-West Commerce Branch
Trade & Finance Branch
Policies and Organizations Branch
International Shipping Branch

Manufacturing & Services Division

Transportation Branch
Construction Branch
Communications Branch
Manufacturing Branch
Electronic Equipment Branch

Resources Division

Agriculture Branch
Chemicals Branch
Electric Power Branch
Fuels & Power Branch
Minerals & Metals Branch

Analysis Division

USSR Branch
Far East Branch
Eastern Europe Branch
Strategic Impact Branch

International Division

Asia Branch
Latin America Branch
Near East Branch
Africa Branch
Western Europe Branch

Trade & Services Division

Trade & Finance Branch
Policies & Organization Branch
International Shipping Branch
Transportation Branch
Construction Branch
Communications Branch

Resources & Industries Division

Manufacturing Branch
Electronic Equipment Branch
Agriculture Branch
Chemicals Branch

Fuels & Power Branch
Minerals & Metals Branch

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(3) The Strategic Impact Task Force was elevated to a Branch in Analysis Division, while the Management and Manpower Branch was abolished with its functions dispersed among the other Analysis Division Branches.

This reorganization was approved by the several echelons of command on 7 May 1965 with one exception. This was the demand by the Office of Budget, Program Analysis and Manpower, that the name "Free World Division" be changed. The objection appeared to be that Cuba was among the responsibilities of this Division and that therefore it could not be truly considered "Free World." Accordingly it was again named "International Division,"* and the word "International" was dropped from the name of D/IS, which became Trade and Services Division (D/T).

The number of analysts assigned to the Free World branches was increased by this reorganization and those assigned to the functional branches correspondingly reduced. While the functional branches continued to assist with technical knowledge, when needed, the Free World branches were thereafter better able to carry out research on

* In a later reorganization (1 November 1967) this nicety was ignored, and the division finally acquired the name "Free World Division."

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the individual industrial and resources sectors of their assigned economies. This was a reflection of [] judgment that

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The reorganization also enabled the ERA to better cope with the increasing burden of policy support and particularly of Free World support. In retrospect, it failed in one major respect. It did not allow for the rapidly growing demands of the Vietnam War, although as shown in the following chapter the ERA was already deeply involved in research and analysis on a number of aspects of that affair. The persistence of the Vietnam problem was not yet fully accepted, and it required another two years before a major reorganization took cognizance of the fact.

F. Increase in Policy Support Activity

Early in 1965, [] joined McGeorge Bundy's staff at the White House. He was succeeded as the DDI's Policy Support Assistant by [] [] a former ORR Division Chief, who had been

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serving on the Board of National Estimates. The combination of a White House staffer with knowledge of and respect for ORR's economic intelligence product and a former ORR senior economist in the principal policy support seat in the Directorate of Intelligence could have only one result: an intensification of ORR's support role for the White House.

No area of the globe was considered "off limits" for ORR's economic intelligence efforts from that time forward, but the first major request from the White House, after [] assignment there, was in familiar territory. This was an invitation to assist in the activation of President Johnson's "bridge building" program.

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1. Bridge Building



In his second State of the Union Message, delivered on 4 January 1965, President Johnson had reiterated his intentions, originally expressed in May 1964, to "build bridges of trade" to Eastern Europe.

In Eastern Europe restless nations are beginning to assert their identity. Your government ... is exploring ways to increase peaceful trade with these countries and the Soviet Union ... 115/

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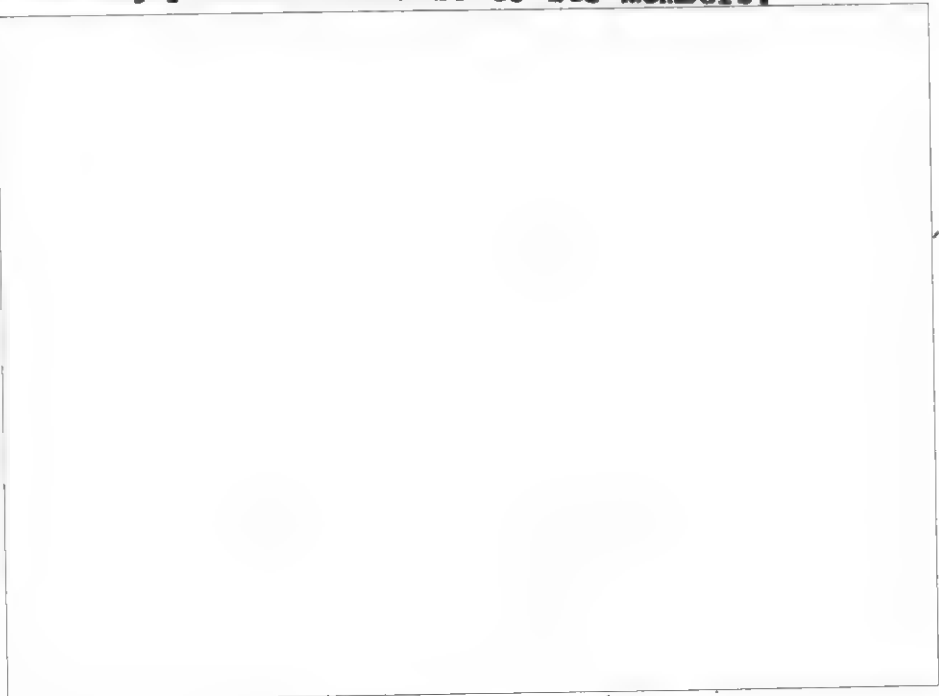
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The message was followed on 18 February by the appointment of a Special Presidential Committee on US Trade Relations with Eastern European Countries and the Soviet Union, under the Chairmanship of J. Irwin Miller, an Indiana businessman.



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The Agency, together with the Departments of State, Commerce, Defense, Agriculture, and Interior, was called upon to assist the Committee with briefings and other materials. It was found that a number of ORR publications issued during the previous year were directly pertinent to the Committee's concerns, and the following reports were accordingly made available to its members.



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Finally, two briefings were presented to the Committee by [] on the subjects of The Strategic Importance of Western Trade to the Soviet Bloc and The Prospects and Implications for Soviet Bloc Trade with the Industrial West. These briefings pointed out that Western trade was relatively insignificant in total Soviet and East European economic activity and that the role of the United States in East-West trade was negligible. The USSR and Eastern Europe regarded the West as an important source of advanced technology for

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accelerating their economic growth and had blamed restrictive Western trade policies for the failure of East-West trade to expand as rapidly as they had hoped. The major obstacle to the expansion of this trade, however, was not Western restriction, but chronic failure of the USSR and Eastern Europe to develop export products capable of gaining significant markets in the West. While the Western share of both Soviet and East European trade was expected to remain about the same, regardless of Western trade policy, the removal of US restrictions might raise significantly the US share in total East-West trade.

The Committee's report to the President, dated 29 April 1965, reflected these intelligence assessments, both on the importance of East-West trade to the participants and on the likely future course of this trade. The Committee recommended a selective expansion of US-Communist trade in non-strategic items, and urged that greater use be made of trade concessions as an instrument of US policy. This report was accepted by the President as the basis for a proposed modification of US trade policy toward Eastern Europe and the USSR.

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2. Southeast Asian Development

Another major Presidential pronouncement in the spring of 1965 involved the "Free World" side of ORR's economic research team. This was the President's proposal, in a speech at Johns Hopkins University on 7 April 1965, for a massive cooperative development program for all of Southeast Asia, including North Vietnam, to be financed by the United States and all other industrial countries, including the Soviet Union. He announced that the United States would, Congress willing, pledge a billion dollars in support of such a program. Although the offer was promptly rejected by North Vietnam and by the Soviet Union, the US Government moved forward with plans to carry it out. On the day of President Johnson's speech, [] sent an urgent request to ORR for ideas on economic development of the Southeast Asian region. A major problem was how to read the President's intentions, since the usual Johnson "style" was evident in the way this proposal was sprung on the Washington bureaucracy. As [] described the problem:

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ORR's response made a number of suggestions and appraised the prospects of such existing schemes as the Asian Highway and the Mekong River Basin Project. Viewing the \$1 billion proposal against the background of \$10 billion in aid already extended to the region since the end of

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World War II, however, it pointed out the obstacles that had prevented past and existing aid programs from having much of an impact. The response also suggested a more positive attitude on the part of the US Government toward the Asian Development Bank, a project that was just getting started at the time and was not receiving much encouragement from Washington. 117/

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With its global responsibilities now implicitly recognized throughout the community, a necessary shift took place in the tempo of the ERA's activities. The Current Support Staff had, of course, for many years operated under "crash" conditions. However, that staff did not get involved in the new Free World responsibilities except as a transmission mechanism to OCI and its publications. The new burden of quick response to policy requests thus fell in large measure on the Free World research branches. During the remainder of 1965 a wide range of crisis situations occurred that called for response from ORR.* Although some of the activity was in the familiar form of NIE contributions, it was by no means restricted to this vehicle. Among the situations that required support projects on a crash basis were: Indonesia's withdrawal from the United Nations (January 1965), Singapore's withdrawal from Malaysia (August 1965), India's two border wars with Pakistan (April and August 1965), the abortive Communist coup attempt in Indonesia (September 1965), the Indian food crisis

* The Geographic Research Area had left ORR in June 1965, leaving ORR with only economic and military-economic responsibilities.

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(fall and winter 1965-66), and Rhodesia's withdrawal from its ties with the United Kingdom (fall of 1965).^{*} Less sudden but persistently grave issues were also receiving attention: The UK's balance-of-payments problem, international petroleum problems, smoldering unrest in the Congo and in Portuguese Africa, and the nuclear development plans of France and India. Finally, of course, there were the ever-present problem of Cuba, military and economic programs of the Communist countries in the "Third World," the internal economies of traditional target countries, and the burgeoning problem of Vietnam.

Even "intelligence" on the US economy was not omitted from the ERA's activities. Not only were US data required and some amount of analysis necessary for the not infrequent comparative studies required by policymakers concerned with the growth rate, but also the DCI would have questions of the "What would happen if ...?" variety with respect to the US economy. Thus in December 1965, in response to one of these DCI queries, the ERA prophetically

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warned that, without action to control prices, an increase of \$10 billion to \$11 billion in defense outlays as a result of the Vietnam involvement would create great inflationary pressures. The existing US inflationary "creep" of 1.5 to 2 percent a year could under these circumstances increase to 4 to 5 percent. 120/

3. Dual Crisis in India

Illustrative of the variety of support activities that occurred in response to crisis situations are the several papers called for from ORR during the fall of 1965 with respect to India. Not only did the longstanding dispute with Pakistan over Kashmir break out into open hostilities in August 1965 but also India found itself facing a major food crisis almost simultaneously. Among the support projects prepared in ORR in response to these dual problems were:

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* So far as the writer can ascertain, the preparation of these [redacted] support projects [redacted] is an ORR record for a single analyst. The yeoman:

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It is discouraging to note that in spite of ORR's continued reporting throughout the fall of 1965, the Indian food crisis seemed to have caught many US officials unaware. In a memorandum for the record on the 16 December 1965 "Rostow Lunch" meeting that considered the problem, a DDP officer who was present

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S-1729 (noted above) addressed to these very issues, was already in process, was published on the day of the meeting, and was quickly made available to the Departments of State, Agriculture, and Defense.

4. Black Africa

In Black Africa, as in other areas of the less-developed world, the Office's initial interest was in those countries that had received economic or military aid from Communist countries. Thus Ghana, Guinea, Mali, and Tanzania were the foci of Office reporting on Africa in the early 1960s. Internal economic problems in the forty-odd new nations of the region soon outweighed this narrow concentration, however, and in the reorganization of 1965 the Near East-Africa Branch was replaced by separate branches for each area, and African research was thus elevated to Branch status. By the second half of the decade, the Branch's research product was in considerable demand by policymakers, particularly in the State Department.*

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The proliferation of newly independent countries arising in Black Africa in the 1960s put a considerable burden on this small branch. Each country was usually favored with a brief ORR/OER memorandum outlining its prospects for economic viability; demands for an NIS General Survey Economic section soon followed, and since the weak economic position of these countries made many of them clients for US aid, the region acquired a policy significance far beyond its intrinsic economic importance. Although the region and the individual countries had perhaps rather low priority in terms of their economic importance, their economic problems were myriad. The efforts of the office to analyze them illustrate in an extreme form the difficulties facing economic intelligence practitioners responsible for those countries variously described as "undeveloped," "underdeveloped," "less developed," and even "developing" -- that is, useful and meaningful statistics are practically non-existent. Since economists are expected to quantify and measure and since policy decisions are supposed to be based on "hard facts," the various papers issued about these countries --

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whether NIS chapters, NIE contributions, other support papers, or internally initiated projects -- were replete with economic data and statistics which suggested a spurious exactitude no matter what caveats accompanied them. Some of the absurdities created by the application of statistical measurements, designed for modern economies, to countries just emerging from the bush were well described by [] in "African Numbers Game," a Studies in Intelligence article, appearing in Fall 1964. Demands of the office's consumers for such measurements did not noticeably diminish, however, and the Office has attempted to satisfy the need with as much common sense as is possible under the circumstances.

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The Office's most persistent African problem in the 1960's was undoubtedly that caused by Rhodesia's unilateral declaration of independence (UDI) in November 1965. This action, although it had only moderate significance as measured on any quantitative scale of US economic interests, created many knotty subsidiary problems. Among them were the black versus white conflict in Southern Africa, the United Kingdom's, and ultimately the United Nation's effort to bring economic pressure to bear

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on a former colony, the economic dependence of a black state (Zambia) on the neighboring outlaw white regime in Rhodesia, the US strategic and financial interest in the copper and chrome production of Zambia and Rhodesia, and the opportunity for Communist influence by the Tanzania-Zambia railroad project being planned with assistance from the Communist Chinese.* Since September 1965 when the crisis surfaced, continuing through March 1970, when Rhodesia cut its last ties with the Crown and became a republic, and down to the time of writing, ORR/OER has continually been called upon for assessments of this many-faceted problem. Of particular interest has been the concern over the effectiveness of the economic sanctions program against Rhodesia. In this respect, the Office has maintained consistently that such a program would be unlikely to achieve its objective -- sufficient disruption of the Rhodesian economy to force a return to British rule.

* The agreement for this railroad project was concluded by the parties on 5 September 1967, after Western aid for the project had been denied on the grounds that it could not be justified economically.

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The ineffectiveness of economic sanctions against Rhodesia was, as indicated, the major theme of ORR/OER reporting in this situation. The voluntary sanctions in effect following UDI in November 1965 were replaced by a United Nations mandatory program on 16 December 1966. The ORR estimate at that time was that these were not likely to be much more effective than before, because of Rhodesian determination to evade the sanctions and their ability to do so with the ready cooperation -- official and private -- of South Africa and Portugal (in Angola and Mozambique), who controlled the trade and transport routes from Rhodesia. Zambia, dependent on Rhodesia for its trade routes, was suffering much more from the sanctions than Rhodesia, and this was, of course, one reason for its frantic search for other routes and its acceptance of the Chinese offer of assistance in construction of a railroad through Tanzania. These judgments continued to characterize the Office's assessment of the problem throughout the course of this history.

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Chapter VI

VIETNAM

"Writing history especially where it blends into current events, and especially where that current event is Vietnam, is a treacherous exercise."

Leslie H. Gelb
(Chairman of the "Pentagon
Papers" Task Force)

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A. Buildup of Research Resources on Vietnam

Until 1963, the ERA commitment to economic intelligence production on countries of the Indochina peninsula was small.* The economy of North Vietnam had been the subject of several studies by the Far East Branch of the Analysis Division as part of its normal mission to follow the Communist countries in the area. 122/ Support projects that had more immediate relevance to US efforts to counter North Vietnam's activities against South Vietnam were also produced.

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The next major project was study of selected targets in North Vietnam, prepared in June 1962 for Walt W. Rostow, then Chairman of the Policy Planning Council of the Department of State. The position of the requester and the tone of the transmittal memo implied that this was designed for long-range contingency planning rather than immediate operational use. 124/

Prior to 1964, the Asia Branch of the International Division had produced only occasional support projects on Laos, Cambodia, and Thailand as contributions to NIE's or in response to specific requests. South Vietnam, which of course had no economic relations with the Communist world, was receiving only superficial attention.* The Transportation and Construction Branches of the

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Manufacturing and Services Division had also done some reporting on transportation facilities in North Vietnam and road construction in Laos. One of the early projects of this type was a study done in August 1959 concerned with transportation links between Communist China and North Vietnam. 125/ There had also been a brief descriptive study requested by the Joint Operational Intelligence Center (JOIC), SOD, DD/P, on the inland water transportation system of Thailand, Cambodia, and South Vietnam. 126/

By the beginning of 1964, the Office was becoming more active in its research activities with regard to the Indochina peninsula. Although

[redacted] then the DDI's Special Assistant for Policy Support, complained on 8 May 1964 that "in the entire DDI area, there are only [redacted] analysts working full time on Vietnam," economic intelligence on the area was not being neglected. 127/ By the end of April 1964, reports representing an estimated [redacted] man-hours of work had already been produced by ORR in that year on various economic aspects of the Indochina problems. 128/

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During the rest of 1964 and early 1965, a period that was marked by a considerable expansion of the US involvement in Vietnam but before US ground forces went over from an advisory and support role to full-scale combat operations, ORR's economic intelligence support activities also expanded rapidly. At the end of June 1965, a precise head count was made in order to furnish the CIA Vietnam Task Force with a roster of Office assets for dealing with the situation. By then, [] ORR analysts were working full-time on Vietnam and [] other professionals were devoting significant time to the problem, for a total of about [] "man-year" equivalents. The full-time list included []

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transportation specialists, []

[] economist working on North Vietnam. The International Shipping Branch []

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[] was devoting about []

[] of its assets to the Vietnam problem. 129/

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Most of the Office's Vietnam support activities at this stage fell into five related categories.

These included:

(1) economic interdiction against North Vietnam, (2) targeting intelligence in North Vietnam, (3) transportation and logistics in North Vietnam and Laos and along supply routes to South Vietnam, (4) the Viet Cong Economy, and (5) the economic viability of South Vietnam.

1. Economic Interdiction Against North Vietnam

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[REDACTED] the demand from operational advocates of such measures for current judgments was, of course, never satisfied. Monthly reports on shipping to North Vietnam, which provided a continuing tally of ship arrivals and departures from North Vietnamese ports with descriptions of their cargoes, were started in April 1965. Studies issued in the spring of 1965 indicated again that the economy of North Vietnam was not significantly vulnerable to measures taken solely against shipping. Even if measures were expanded to deny all sea and rail access to North Vietnam, the economic impact

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would be rather limited. North Vietnam was characterized as a subsistence, agrarian economy which could withstand a severe disruption of its small modern industry sector and still maintain its military activities in South Vietnam. The studies indicated, moreover, that while combined sea and rail interdiction would have the greatest impact, simultaneous interdiction of the three major rail lines would produce results of almost equal magnitude. Restricting the activity to rail interdiction would of course avoid the many political and diplomatic problems associated with sea interdiction. 130/

These projects, prepared at the behest of the Interdepartmental Vietnam Coordinating Committee under the chairmanship of Ambassador Leonard Unger were apparently persuasive at the time. Similar judgments were made over the next several years, and sea interdiction was avoided until the spring of 1972, although as a policy option it was under continual review. ORR/OER continuously held to its position in spite of the vigorous arguments of its advocates.*

*See Volume III, Chapter IV.

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2. Targeting Intelligence on North Vietnam

Targeting studies prepared prior to the Tonkin Gulf incidents (2-4 August 1964) were primarily for contingency planning or for consideration by the Clandestine Services. Thus the study prepared for Rostow in June 1962* was a selection of industrial and logistic targets in terms of economic, military, and psychological impact. Early in 1964, at the request of the JOIC, a study was produced to assess the effects of a partial blockade of Haiphong Channels. 131/ This was followed by a more detailed study of Haiphong harbor and its facilities. This report received a supplemental distribution to State's Vietnam Coordinating Committee, the Joint Chiefs of Staff, the Assistant Secretary of Defense for International Security Affairs, and the White House National Security Council Staff. 132/ A separate DDP request was serviced by a general study of industrial targets. 133/

After the Tonkin Gulf incidents and the subsequent Congressional Resolution opening the way to bombing operations against North Vietnam, the

* See p. 160 above.

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support role of ORR became more operational. On 6 August 1964, two days after the second incident, the DCI was provided with a descriptive list of appropriate sites that would provide targets for a limited, measured response directly related to the attack against the US Navy. 134/

The tit-for-tat bombing policy, which was initiated after Tonkin Gulf, was abandoned early in 1965 in favor of the "Rolling Thunder" program aimed at selected economic and military targets in North Vietnam. From this time on, targeting studies were intensified in scope and frequency, and it was not long before ORR had acquired the additional task of bomb damage assessment.* A specific study of the Hanoi-Haiphong electric power network was completed in April 1965 for the Vietnam Coordinating Committee. This study analyzed the comparative effects of the destruction of boilers, generators, and substations in terms of reconstruction time required for the eight thermal electric powerplants in the Hanoi-Haiphong area. 135/

* See pp. 178-187 below.

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This project was followed by a much more detailed descriptive study of the key industrial, transport, and military installations in North Vietnam which not only covered the powerplants discussed in the previous report but also described the five major heavy manufacturing plants, principal railroad and highway bridges, petroleum storage areas, and Haiphong port installations. Airfields and naval bases were also included, and the possibility of flooding the Red River Delta through breaching the levees at the appropriate season was discussed. It was judged that a successful breaching of the levees by conventional bombing would be extremely difficult because of their size and conformation. Even if successful the damage to the rice crop would probably not be critical. 136/

3. Transportation and Logistics Studies

A principal basis for the judgment that North Vietnam was relatively invulnerable to sea blockade was the assessment by ORR's Transportation Branch of the rail and road links between that country and Communist China. As indicated above, a study of this subject had been made in 1959.

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Following a number of brief descriptive support projects in 1964 and 1965, a thorough review of North Vietnam's transportation system was prepared and published in November 1965, describing its improvements since 1961 and its role in the economy and in the support of North Vietnam's aggressive actions in Laos and South Vietnam. 137/ The possible effects of interdiction of the routes between North Vietnam and Communist China as well as routes south of Hanoi were analyzed in a study for the DCI in July 1965. 138/ These materials proved to be of major importance as building blocks for the targeting studies and bomb damage assessments which were becoming an important part of ORR's mission with respect to Vietnam.

The means by which war materials and other goods were brought in to North Vietnam was only one side of the logistics picture. The other side, supporting North Vietnam's subversive activities and aggression in the other states of Indo-China, was of equal concern to ORR's customers. During 1964, several studies were produced, describing the condition and estimating the capacity of key roads and airfields in Laos.

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[redacted] techniques improved, the authenticity and currency of these were also improved, and analyses of traffic patterns were developed. Coverage of North Vietnam was also undertaken on a selective basis and provided material for analysis of truck traffic and for the target studies outlined above.

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[redacted] Each of these sources had certain limitations, and the techniques of using the material and understanding its limitations required a process of reeducation and reorientation of the analysts who were assuming the responsibility for production of finished intelligence on logistical matters.

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Nevertheless, it was becoming possible by mid-1965 to develop some understanding of the principal routes by which supplies were moved from North Vietnam into Laos for the Communist forces there or for infiltration to the Viet Cong in South Vietnam as well as estimates of route capacities and rough judgments about their actual use.

4. The Viet Cong Economy

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decided on three priority tasks:

(1) study of the political organization and infrastructure of the Viet Cong,

(2) study of the Viet Cong economy, and

(3) study of the Viet Cong supply routes and methods.

The Branch had been able thus far to work on only the first of these tasks. On the economy of the Viet Cong, only a somewhat superficial study of the taxation system prepared by J-2 was in existence. [redacted] recommended that ERA undertake a preliminary study of the economy of the Viet Cong, which could be sent to Saigon for evaluation. If Saigon decided that it had significant additional source materials available, ERA could follow it up [redacted]

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[redacted] to exploit the material and make the study more definitive. The value

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of a detailed study of the Viet Cong economy was believed to lie in the fact that the Viet Cong were, to a large extent, living off the land through an extensive tax, conscription, and requisition system which might be vulnerable to countermeasures if its full scope and composition were known. 139/

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His report, although it acknowledged many gaps in information and was unable to quantify the extent of Viet Cong economic subversion, except in very general terms, was the first detailed description of how the Viet Cong was able

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to sustain itself and of the impact of this sub-
version on the South Vietnamese economy. 140/

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[REDACTED] this report went beyond the usual
fact finding and made extensive recommendations,
including: expansion of intelligence collection,
more vigorous resource control, port and waterways
security, and monetary controls, and a program of
disruptive activities against Viet Cong economic
resources.

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At the end of 1964 the Viet Cong economy was
estimated to be largely maintained from indigen-
ous sources -- the seizure of non-military sup-
plies and capture of weapons and ammunition from
the Army of the Republic of Vietnam (ARVN) were
only a part of the picture. Much of the Viet

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Cong material was produced or grown by the Viet Cong themselves or purchased locally at market prices. Infiltration of men and supplies from North Vietnam, principally through Laos, was, however, a necessary addition to the Communist capability to carry on the insurgency in South Vietnam. A report drawing together all the available intelligence on this activity was prepared in ERA early in 1965 as a preliminary to a more systematic continuing study. 142/ A tentative estimate was made that the Communists had enough porters to transport about one short ton of supplies per day into South Vietnam over the Laotian trail system, but that this capability could be expanded. Both water and land routes from Cambodia and sea routes directly from North Vietnam were also discussed, but no estimate of the volume carried by these approaches was attempted.

The Defense Intelligence Agency (DIA) was also making estimates of levels of logistical support activity, and there were significant differences between the estimates of the two agencies. The disagreement centered on the degree to which the Peoples Army of North Vietnam (PAVN) forces in

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South Vietnam were dependent on infiltrated supplies. In hopes of resolving the differences, DIA proposed a USIB study of the question. This was conducted under ONE's auspices, with contributions by all interested agencies including ORR. The resulting study agreed with ORR's earlier judgment that most of the Viet Cong supplies and manpower were obtained within South Vietnam but acknowledged that there was some dependence on outside sources for arms, ammunitions, technical and medical supplies, and cadre and technical personnel. The Laotian corridor was identified again as the main route of supplies; the daily average to date thus far in 1965 was estimated as "at least 5 tons and (maybe) more than 8 tons." The sea route and the land and water routes from Cambodia were considered to be handling significantly less tonnage than the Laotian corridor.* 143/

5. Economic Viability of South Vietnam

Through 1964, policy-level interest in the economy of South Vietnam had been expressed to ORR only in requests for information on the extent of French interests in the country. 144/

* A detailed discussion of the Cambodia route problem will be found in Volume III.

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The only research in depth that had been carried out on the economy of South Vietnam itself was in the preparation of the Economic Section (Section 6) of the NIS General Survey completed in December 1964 and an intelligence memorandum on the natural rubber industry. 145/ The serious problems of inflation that were later to plague the South Vietnamese economy had been fairly well contained in 1964 as the stability of the piastre was being maintained by the abundance of goods made available through the US aid program. 146/

In 1965, however, the inflationary pressures inherent in the situation could no longer be contained. Mounting defense expenditures, shortages of consumer goods, and increased spending by foreign personnel combined to send prices up by 35 to 40 percent in Saigon. It was increasingly apparent that economic conditions in South Vietnam would be significantly influenced by the growing presence of US forces and by the scale of US economic and military programs -- with the added complications of Viet Cong economic subversion.

[redacted] equally severe inflation could be expected the following year. 147/

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This developing problem led to a further increase in demands for intelligence support from ERA, and by 1966 the economy of South Vietnam was being closely followed by the Area. [REDACTED]

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formerly of ONE, who was handling Vietnam Affairs on the White House staff, requested a weekly report on economic conditions in South Vietnam, starting in April 1966, to provide current reporting on inflationary trends and other economic developments. This report, later put on a monthly basis, was still being produced as of early 1973.

In addition to its current reporting on the economy of South Vietnam, the Office also assisted in programs aimed at development planning. [REDACTED]

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The responsibilities of the Economic Research Area for assessments of economic and logistical factors in the Vietnam conflict were significantly increased in the late summer of 1965 when CIA was requested to join the DIA in preparing a monthly report for the Secretary of Defense on the effects of the "Rolling Thunder" air offensive against North Vietnam (began on 2 March 1965). Within the Agency this task was assigned to ORR, and it proved to be only an entering wedge for a large number of requests for assessments of this activity from a variety of requesters. The monthly series 149/ was continued until the bombing halt of 1 November 1968, but it was not adequate for the voracious appetites of McNamara and the other high-level recipients. The Secretary of Defense also required separate comprehensive reporting on the effect of attacks on major railroad and highway bridges in North Vietnam. 150/ McGeorge Bundy asked for independent CIA assessments of the level of civilian casualties resulting from the bombing of North Vietnam. 151/

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Late in 1965, Walt W. Rostow requested an analysis of the probable economic and social effect of a postulated escalation of the US/GVN air offensive against North Vietnam. The resulting report concluded that even an escalation involving attacks against all major economic targets in North Vietnam would not substantially affect the ability of the North Vietnamese to supply the Communist forces in South Vietnam and that it would be unlikely to bring the Hanoi regime to negotiations. 152/ Similar judgments were to be repeated many times over the next several years, but at this juncture the sombre implications of such a conclusion required that dissemination of the report be restricted to the requestor and to Bundy, the Secretary of Defense, and the President.

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In the meantime, the Secretary of Defense had requested a detailed review of the bombing policy. The project was to assess the record to date and estimate the potential of future air attacks for attaining US objectives in Vietnam and was to include recommendations for future target emphasis. The resulting report was given the shorthand title

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"McNamara I" and became the first of a series of "McNamara Reports," ultimately seven in all,* which were primarily basic assessments of the effect of the air offensive against North Vietnam but often included elaboration of related issues as required by the Secretary.

McNamara I was an analysis of the Rolling Thunder air offensive against North Vietnam through 1965, estimating the physical damage and casualties that resulted and evaluating the potential of air attacks to achieve the stated objectives of Rolling Thunder as follows:

(1) to reduce the ability of North Vietnam to support the Communist insurgencies in South Vietnam and Laos,

(2) to increase the pressure on North Vietnam to the point where the regime would decide it was too costly to continue directing and supporting the insurgency in the South,

* The "McNamara Reports" ceased with No. VII in March 1968, with the Secretary's resignation and the partial bombing halt announced by the President on 31 March. Further assessments of the limited bombing activity over North Vietnam that went on until 1 Nov 1968 are made in a series of "Clifford Reports." The latter, although requiring as much research as the McNamara Reports, avoided much of the detail of the former, reflecting the growing professionalism of the assessments. 153/

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(3) to bolster the confidence and morale of the South Vietnamese.

It concluded that only the third of these objectives was being achieved and that neither the levels of attack applied in 1965 nor substantial increases therein would, under the ground rules of 1965, achieve the first two objectives. Alternative courses of action were considered, and for purposes of comparison, evaluations of US air offensives in World War II and Korea were presented. 154/

With the undertaking of the McNamara report series, the handwriting was on the wall with respect to ERA's organization. In recording a meeting with Secretary McNamara and Deputy Secretary Vance to discuss progress on McNamara I,

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However a division-level reorganization recognizing the impact of the Vietnam War on the economic intelligence mission was still nearly two years away. Such crash projects as the McNamara Reports, which came with growing frequency, continued to be handled by the task force device -- McNamara I required the full-time efforts of about [] people for about [] months.

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The genesis of McNamara II was a request by the Secretary to DCI Raborn for an assessment of the Vietnamese Communists' will and ability to continue the war. He wanted an analysis of the strength and morale of the VC/PAVN forces in South Vietnam and of the morale-affecting factors such as size and trend of casualties and availability of food supplies, weapons, medical services, and so forth. With respect to the situation in North Vietnam, he required an assessment of the drain on North Vietnamese manpower of the South Vietnam and Laos commitment, the effect of the bombing offensive, and the attitude of the Hanoi leadership with respect to their prospects of winning the war. 156/

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The project was laid on the DDI area as a whole, with ORR responsible for an estimate of enemy logistics capabilities in South Vietnam (with ONE) and for an overall analysis of statistically measurable resources and capability elements. The task force assigned to prepare ORR's contribution was headed by [redacted] who as Chief of the Trade and Services Division had played a leading role in developing the Office capability to respond to previous requests on Vietnam.

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McNamara II came out as a CIA Memorandum, The Vietnamese Communist' Will to Persist.

The ORR contributions included:

Annex I, The Economic Military and Logistics Resources and Capabilities of the Vietnamese Communists.

Annex II (jointly with OCI): The Effects of the Soviet and Chinese Involvement in the War on the Vietnamese Communists.

Annex IV, The Ground War in South Vietnam.

Annex V, The Resources and Logistic Capabilities of the Communists in South Vietnam. 157/

The effort made by the Office in the production of McNamara II added yet another area of expertise which thereafter became an Office responsibility -- that of enemy manpower estimates. Subsequent reports on manpower were concerned

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with not only Communist military forces in South Vietnam but also the availability of labor forces on lines of communication for repair and maintenance 158/ and ultimately all aspects of the North Vietnamese manpower situation, including detailed order of battle intelligence.

"McNamara III" was in response to yet another request from the Secretary for a bombing program assessment -- in this case a comprehensive report covering the period 1 January-30 September 1966, to be followed by quarterly reassessments.* The quarterly updatings of the bomb damage assessments for the Secretary of Defense thus became elements in the informally designated series of McNamara Reports.

McNamara IV, entitled *The Rolling Thunder Program -- Present and Potential Target Systems*, was released in January 1967. As an assessment of the air offensive in 1966, its conclusion was not significantly different from those of McNamara I for 1965: i.e., the two prime objectives of Rolling Thunder -- to reduce the support to VC/NVA

* McNamara III was issued in two versions, the late one being more definitive.

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forces in South Vietnam and to weaken the will of the Hanoi regime -- were not being achieved. 160/ Nor were the conclusions essentially different for the last three reports in the series, covering the bombing campaign in 1967. 161/

Although various McNamara reports, or at least summaries of their findings, were undoubtedly brought to the attention of the President, there were a number of additional studies undertaken at his specific request. During the first six months of 1967, at least seven White House requests were acted upon. 162/ These responses and the McNamara reports did much to establish ORR's (and CIA's role) in the field of bomb-damage assessment. There were two areas in which ORR's studies made unique, albeit controversial, contributions. In the first instance, ORR was the only intelligence unit in Washington [redacted] that was costing the bombing program [redacted]

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Many observers both in and outside the Agency were critical of this costing approach, but Secretary

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McNamara wanted it and apparently liked the results. Although the absolute figures may have been considerably off the mark, they constituted an objective and probably the only systematic method of evaluating the bombing effort.

Secondly, ORR was the only unit in the government that was estimating overall enemy casualties resulting from the bombing. The gist of the findings

was that casualties were lower than many had expected. While the Air Force always viewed ORR as critical of the bombing program, it was ORR's work that was showing that in terms of tons of bombs dropped, civilian casualties were extremely low compared with any other war in history. Since President Johnson was known to be sensitive to criticism of so-called "indiscriminate" bombing, these findings were well received at the White House. On the other hand, the essential message of ORR's assessment was hardly encouraging. To the extent that the conclusions can be generalized, the message continued to be: North Vietnam was paying a price in manpower and material, its economy was suffering long-term damage, and the populace was being subjected to considerable hazard and privation. But the

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critical element upon which the war effort rested -- the will to resist -- showed no signs of faltering, and North Vietnam's ability to continue the war in South Vietnam was "not meaningfully degraded." 163/

Concurrently with the McNamara Reports and the special responses to White House requests, the Office continued to participate in the monthly joint CIA-DIA reports on the bomb damage. These were, however, much more equivocal than the Office's own reports because of the need to reach agreed evaluations with an agency that was under pressure to speak well of the bombing. 164/

C. Summary of ORR's Vietnam Effort up to July 1967

Although the bomb damage assessment activities that were undertaken by ORR after midsummer 1965 soon became a major preoccupation of the Office's Vietnam effort, the other areas of economic intelligence concern that had been developed previously were continued in 1966 and 1967. The economies of both North and South Vietnam were continually scrutinized and reported upon. The flow of supplies and men to South Vietnam through Laos, the capacities of the supply routes and their recuperability were covered, not only in the bomb-damage assessment studies but in a variety of ad hoc

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responses to specific requests. The overall bomb-damage assessments were supplemented by studies of damage to specific resources -- e.g., petroleum storage sites, powerplants, etc. -- and of civilian casualties in North Vietnam. [REDACTED]

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[REDACTED] All this involved, of course, a heavy commitment of manpower.

The impact of Vietnam on ORR's economic intelligence mission did not cause an organizational adjustment at the division level until after ORR had ceased to exist as such, but it was already clear by July 1967 that until the Vietnam issue was settled, the successor Office, OER, would be heavily involved. [REDACTED] professional persons were by then assigned to the problem full-time -- nearly one-sixth of the Office's economic research professional strength -- and many others were providing significant support. The number of finished intelligence reports on the subject had risen [REDACTED]

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[REDACTED] in the first half of 1967. 165/

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These statistics do not, however, convey the full impact of Vietnam on ORR. Virtually all the activities described above were performed in the Economic Research Area. Although military in

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nature, the intelligence problems associated with Vietnam fell more logically to the technical experts and economic analysts in the ERA than to the specialists in the Military Research Area whose expertise was concentrated on the advanced weaponry and delivery systems of the USSR and Communist China. Although [] had probably never envisaged the duties to which ORR's technical experts would be called when he specified the need for "technical and engineering thinking" in ORR's work,* the presence in ORR of a group of transportation, construction, petroleum, and other technical specialists enabled the Office to respond quickly and effectively to the changing needs for support. In addition, many analysts with a more generalized economic training and experience were called upon to cope with problems that were hardly the traditional concerns of professional economists. It soon became apparent, however, that ORR's economists were sufficiently flexible to develop the appropriate analytical techniques for their new responsibilities, and that their initiative, ingenuity, and objectivity, which were being applied

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* See Vol. I, p. 32.

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to these unusual new problems, were bringing increasing respect at the highest levels for ORR's efforts. Whether these Vietnam activities were "economic intelligence" as it had been defined by [redacted] or as it had evolved during the ensuing years is probably irrelevant. The Office, which had on the one hand developed to a high degree the techniques of analyzing and interpreting the economic strengths and weaknesses of target countries behind the Iron Curtain and on the other hand developed the necessary knowledge and techniques and exploited the exotic source materials necessary to evaluate the military strengths and weaknesses of those countries, was now demonstrating its ability to provide durable intelligence judgments in areas that had never been envisaged by ORR's founders. For example, the judgment made in 1961 about North Vietnam's relative invulnerability to blockade and the many judgments made from 1965 to 1967 and after about Hanoi's continued ability to carry on the war in spite of the severe damage being inflicted by the Rolling Thunder Program appear, as seen from 1972, to have stood up well -- however distressing they may have been to the designers and executors of these programs.

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Chapter VII

ORR IN SUPPORT OF NATIONAL POLICY

"What makes the perfect policymaker ... is what
makes the perfect girl—accessibility."

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A. A Change in Leadership

On 30 December 1965, [] retired as
Director of ORR, to be succeeded by []
[] who had been the Deputy Director since
1956. During [] 13 years as head of the
Office its character had changed markedly. The
basic intelligence and geographic intelligence
functions had each gained an importance that jus-
tified independent states. Their departure and
that of the National Photographic Interpretation
Center (NPIC), an outgrowth of the small Photo-
graphic Intelligence Division set up under []
direction in 1952, left the Office with only eco-
nomic intelligence function. [] was, of course,
a professional geographer and had given effective
substantive guidance to the photographic and geo-
graphic intelligence functions while they were
under his leadership. Yet it was the economic
intelligence function that flourished and broadened
within ORR during his tenure. The substantive

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direction given to economic intelligence by []

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[] and to military-economic intelligence by

[] and the vigorous promotion of

the Office's policy support role by [] have

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been stressed in this history, but it should not

be forgotten that these aspects of the Office's

development took place under the leadership of

[] His advocacy and protection of the Office's

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position in the bureaucratic environment of Wash-

ington were also essential ingredients in the

success story. It was he who as Chairman of the

EIC established the Agency's position of prime

responsibility for economic intelligence on the

Sino-Soviet Bloc in the negotiations leading to the

adoption of DCID 3/1.* In 1965, when the Office's

excursions into Free World economic intelligence

were being questioned by the Bureau of the Budget,

it was [] who provided DCI McCone with the

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justification and technique for solidifying the

Office's position in this activity. In addition

to these high points, [] diplomatic skills

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were often called into play in his chairmanship

of the EIC, which under his leadership was effec-

tively restricted to a coordination role and

* See Vol. I, pp. 72-73.

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prevented from becoming an impediment to ORR's primacy in the economic intelligence field. 166/

[] the new Director of Research and Reports, had come to the Office -- after a brief stint in ONE -- from its predecessor organization, the Office of Reports and Estimates, where he had been Deputy Chief of the Economics Branch. In the early fifties he served successively as Executive Secretary of the Economic Intelligence Committee, Special Assistant to the Assistant Director, and Chief of the Coordination Area. When the latter organization was abolished in 1955, he was assigned to attend the National War College and upon his return in July 1956, he was named Deputy Assistant Director of ORR. [] had what was probably ORR's most extensive firsthand experience with the Soviet Union, since he had served there with the US Military Mission during World War II and had also been assigned to Moscow, during a leave of absence from CIA in 1960-61, as Economic Counselor at the American Embassy.* As indicated

* [] frankness in dealing with the Russians during this latter tour was, according to [] welcomed by his hosts. He freely acknowledged that he had been associated with CIA and that the agency "has the world's best research organization on the USSR." On one occasion [footnote continued on p. 195]

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in early chapters of this volume, he had been particularly responsible, under [] leadership, for the development of ORR's policy support role in the years just preceding his accession. He had also served as Acting Director during [] [] several months in 1964 and again in 1965.

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B. Policy Support: 1966 and 1967

Upon [] accession, the policy support activities of the Economic Research Area went into high gear, with the Office actively promoting itself to a receptive group of policy officials in the State Department (openly bypassing the Bureau of Intelligence and Research in this activity).

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[] returned to ORR and was appointed to a new position in the Office structure -- Executive for Policy Support.* Early in 1966 he and [] met with [] Deputy Assistant Secretary of State for European Affairs and with [] Deputy Assistant Secretary of [] when he was visiting a state farm, he responded to the glowing description of its achievements in manure production with (in Russian), "In America we would say that's a lot of bullshit." His hosts were delighted. 167/

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* This was a personal assignment lasting from 9 December 1965 to 3 January 1967 when [] became Chief of Economic Research.

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State for Far East Economic Affairs, to brief these officials on ORR's capabilities and to explore ways that the Office's support facilities might be of use in their respective areas. 168/

ORR's research activity on Communist countries was already well known and widely used by State's policy officials, but the expansion of ORR coverage to the Free World had not been so well understood at the "desk" level. Partly as a result of these briefings and partly as a result of the regular attendance by ORR personnel at the Policy Planning Group (PPG) meetings started by Walt W. Rostow, then State Department Counselor and PPG Chairman,* the availability of ORR's support resources on a world-wide basis became much better known in this period and accordingly more depended upon by State's officials. This was particularly true of the Bureau of Far Eastern Affairs (FE). In addition to the rapidly developing demands for support on Vietnam and the continuing demands for intelligence judgments on Communist China, FE as represented by became an avid consumer of ORR's products on the Free World countries of Asia.

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* Rostow left the State Department on 31 March 1966, to become the President's Special Assistant for National Security Affairs.

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1. Support to the Bureau of Far Eastern Affairs, State

Reports on the Asian rice situation were of particular interest in this period because of (1) the change of South Vietnam from a rice-exporting to a rice-importing nation under the pressure of the Viet Cong insurgency, and (2) the need to answer the recurring question about the attractiveness of the so-called "rice bowl of Asia" as a solution to the growing pressure on food supplies in Communist China. ORR's answer to this question when it was raised early in 1966 by General Maxwell Taylor, Chairman of the President's Foreign Intelligence Advisory Board, was that neither the existing nor the potential surplus rice production of continental Southeast Asia could enhance China's food supplies significantly. 169/

Another Asian subject of major policy interest in the mid-1960's was Indonesia. As the largest country in Southeast Asia and a major recipient of Communist military and economic aid, its affairs had occupied the attention of ORR since the Office first undertook economic research on the Free World. Indonesia's international adventures, under

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the volatile leadership of President Sukarno, its confrontation with The Netherlands over western New Guinea (1957-63), its opposition to the establishment of Malaysia (1964-65), and its dramatic departure from the United Nations (1965) helped to make this country second only to Vietnam in the concerns of the government's makers of Asian policy. This interest was heightened by the abortive Communist coup attempt of 30 September 1965, which resulted in the eclipse of Sukarno and the coming to power of Suharto and the Indonesian army. The potential for a return by Indonesia to acceptable international good behavior and economic responsibility was recognized by the US Government, but during the rest of 1965 and 1966 the matter was handled very gingerly by the Department of State because the Indonesian Army's hold on power was still precarious and the Indonesian economy had been mismanaged for so long that there seemed little to be done to assist it. A number of ORR papers were prepared for the purpose of giving some degree of realism to assessments of a possible US role. 170/ They were capped at the end of 1967 by one of the first instances of computer analysis of a Free World economic situation involving policy decisions

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for the US Government. This was OER's response to a request from for a thorough study of Indonesia's debt rescheduling and foreign assistance requirements. Computer analysis of Indonesia's muddled financial affairs provided a firm and rational basis for US Government's financial planners' work with the International Monetary Fund and other donor countries towards setting Indonesia on a reasonable financial course.*

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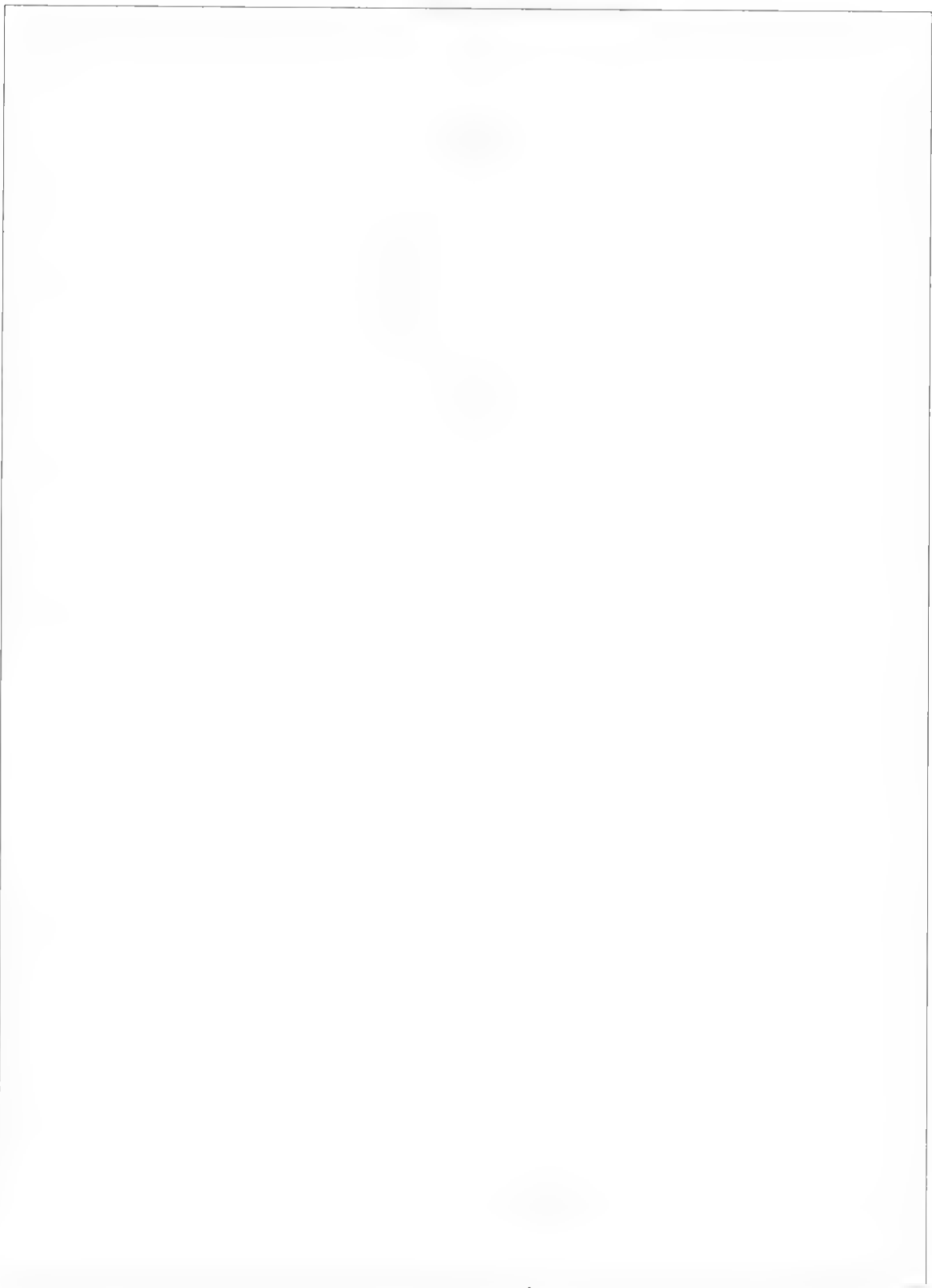
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* See Volume III for a more detailed description of this project.

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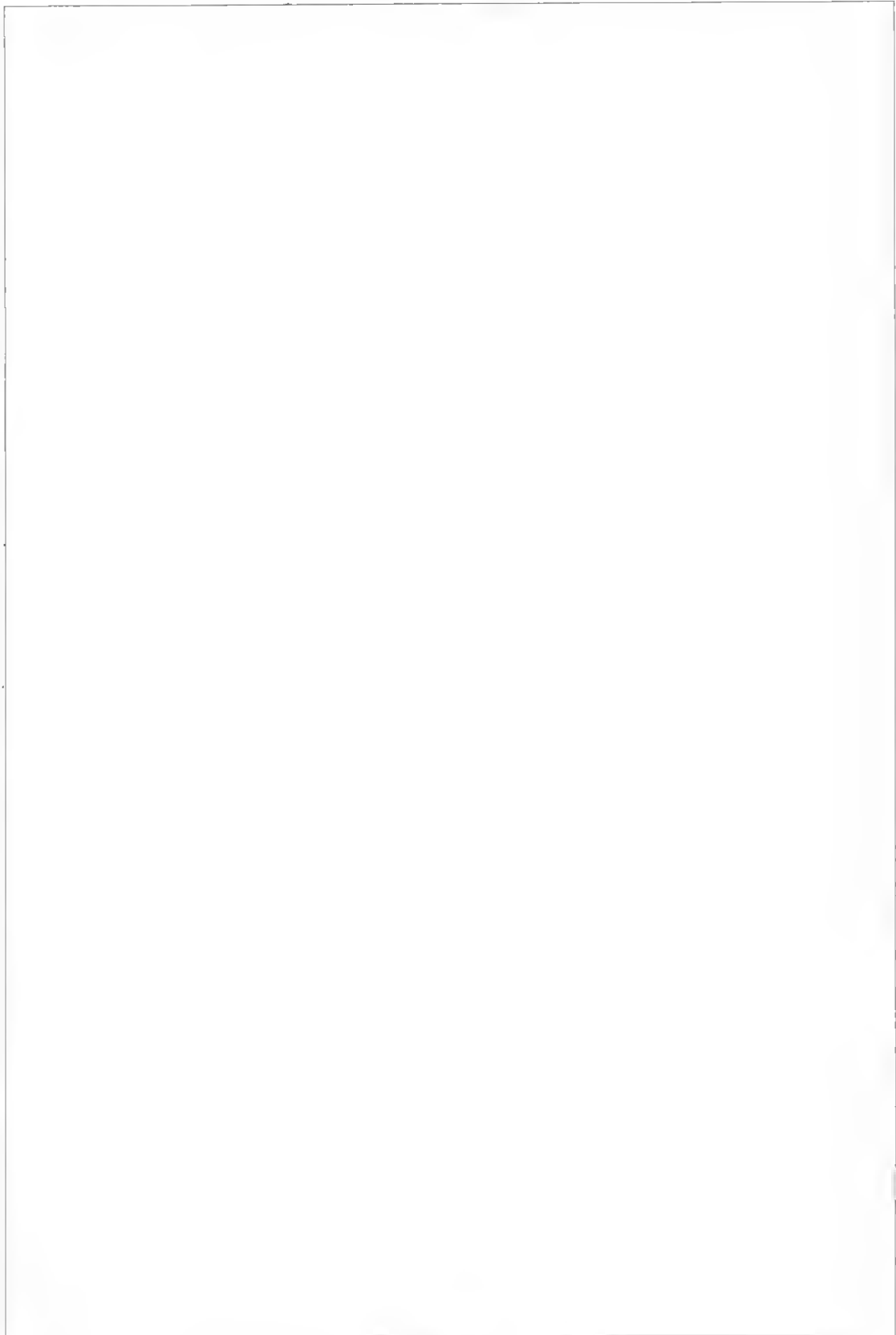


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The lack of reliable data on Communist China continued to hamper research on that country in the late 1960s. This did not, however, prevent the Office from exploiting to the full what was available or from publishing a number of significant findings. The China specialists in ORR made substantial contributions to the first Congressional (Joint Economic Committee) assessment of the Chinese economy, released early in 1967 under the title An Economic Profile of Mainland China.

The ORR contributions in this Congressional compilation included:

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The Office also supplied -- with attribution --
tabular material on Communist China's Balance of
Payments.

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These papers provide a revealing survey of the
state of the Chinese economy in the mid-1960's --
insofar as it could be pieced together from the
scant information available. Most of the writers
characterized Chinese economic developments under
Communism as showing wide fluctuations between

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significant economic progress and chaotic decline as political and ideological turmoil periodically replaced logic and reason as determinants of economic policy. At the time these papers were being prepared, China was entering one of these periods of turmoil -- the Great Cultural Revolution. Thus the contributors to this volume found it difficult to make any predictions about the Chinese economy, beyond such generalizations as [] "... the substitution of ideological cant for logic and reason cannot help but produce economic disruption. The uncertainty is how much." 176/

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Also in 1967, the Office, stimulated by an expression of Presidential interest in the subject, undertook to issue periodic memoranda on the economic implications of the Cultural Revolution. The extension of the Cultural Revolution beyond the political realm to industry and agriculture at the end of 1966 was, as expected, causing considerable disruption. Reports of production stoppages and other economic dislocations were coming in, and ORR produced [] intelligence memoranda making tentative judgments on the seriousness of these

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events. 178/ A report on the prospects for the economy, issued in August 1967, summed up the findings of the research effort on the Cultural Revolution as follows:

As for the Cultural Revolution, its effects on the economy became appreciable only in the last quarter of 1966. Industry, agriculture, transportation, and foreign trade have been subject to sporadic disruptions which have not as yet led to a serious and self-reinforcing decline in economic activity. There has been, however, a decline in efficiency and probably a slow decline in industrial production, starting in the last quarter of 1966 and continuing through the first half of 1967.

The economic outlook for Communist China through 1970 will be strongly conditioned by political developments. If the political turmoil continues at about its present level, the economy seems likely to deteriorate further; if the present disruptive conditions were to continue for an extended period or intensify, a sharp decline in industrial production or an acute food shortage might occur ... no very confident estimate of Communist China's economic future can be made, especially given the present record of political turmoil and the past record of twists and turns in economic policy. Some general conclusions may be hazarded, however. The ambitions which have produced China's advanced weapons program will almost certainly remain, and output in the military industries will probably continue to grow at a fairly rapid pace. At the same time, a substantial part of industry will remain in the backwater of outdated equipment and technology. The food-population problem will not be solved, at least over the

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next few years. Barring spectacularly good weather and spectacularly good luck, agricultural output will have to be supplemented by continued imports of grain if the population is to be fed at even its present low level. Foreign trade will continue to grow and will continue to be oriented toward Japan and Western Europe. To an even greater extent than the USSR, China will remain a nation of extreme economic contrasts -- a hungry nation with a dispirited population, albeit one with a growing arsenal of advanced weapons. 179/

Retrospectively, it is apparent that the Cultural Revolution did cause a set-back to industrial production through the first half of 1967, after which it began to recover rapidly to regain the 1966 peak by 1969. 180/ Agricultural production was not directly affected in 1967 -- the Cultural Revolution was mainly an urban phenomenon -- and it was also generally satisfactory in 1968. 181/

2. Support to the Bureau of European Affairs, State

Much of ORR's support to the Bureau of European Affairs (EUR) in 1966 was stimulated by the efforts of the State Department to proceed with the President's policy of "bridge-building" to Eastern Europe. Implementation of the program would require Congressional action, and the State Department, together with Commerce, needed material for use in

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Congressional hearings on the matter. A report on Prospects for U.S. - Soviet Bloc Trade was initiated for this purpose, and the series of papers that had been furnished for the use of the Miller Committee* was updated and sent forward. A specific instance of "crash" support in this effort was ORR's involvement in State's dealings with the Congress with respect to the Soviet plan to build a Fiat automobile plant on the Volga. That this indirectly led to the demise of ORR's highly successful program of unclassified report dissemination was an unintended consequence of ORR's policy support activity.**

Since Congressional opposition to the bridge-building program tended to reflect resentment at Soviet and East European aid to North Vietnam, an important requirement existed to provide EUR with the facts about this aid in preparation for Congressional questioning. A support project on Bloc aid to North Vietnam was forwarded in February 1966 for this purpose. This report, which was largely a content analysis of European Communist leaders' and press comment about their aid to North Vietnam,

* See p. 138, above.

** See pp. 208-210, below.

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made the point that "the token assistance so far provided the DRV seems hardly enough to cause any noticeable disruption in the life of the Bloc." 182/ Thus a case could be made that there was little relationship between possible trade between the United States and Eastern Europe and the latter's willingness or ability to support the DRV.

3. SIG and IRG Support

The establishment in April 1966 of a new inter-departmental mechanism for foreign policy decision-making also provided an impetus to ORR's policy support activity. This was the Senior Interdepartmental Group (SIG) and Interdepartmental Regional Group (IRG) structure established by National Security Action Memorandum No. 341. The Agency's role in this organization

called for the DCI to sit on the SIG

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The DDP Area Division chiefs represented the Agency on the five IRG's, which had similar missions with respect to the five geographic areas covered by the regional bureaus of the Department of State. This mechanism

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meant another channel through which world-wide policy support duties were frequently laid on the Economic Research Area of ORR. The following matters -- most of them, fortunately, already being considered by ERA -- became subjects of SIG-IRG concern causing a heightened demand on ORR: the Zambian and Rhodesian economies under the impact of UK sanctions against Rhodesia; Southeast Asia regional development, the Export-Import Bank loan for the Fiat plant in the Soviet Union, Indian nuclear weapons aspirations, and sanctions against South Africa.

A unique support service was provided to the Department of State in the fall of 1965, when an ORR transportation specialist [REDACTED]

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[REDACTED] prepared a detailed and comprehensive report. The essence of the report was that the

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Lobito route would be of very limited immediate use to Zambia unless a serious bottleneck on an electrified section of the Bas Congo Katanga Railway could be eliminated. 184/

There is no reason to believe that INR was not also heavily involved in policy support at the same time that these activities were going on, but it was manifest that State's policy officials welcomed the opportunity to use ORR's research and analytical facilities in fields where these had proved to be effective. Thus in closing a letter to suggesting research into a number of factors relating to the Indonesian economy -- e.g., prospects in world markets for Indonesia's tin and rubber exports, and its agricultural output -- Assistant Secretary Barnett wrote:

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I believe ORR is the only organization in the Government with resources to handle this research ... or something as ambitious as these projects might turn out to be. I should probably let INR know what we are up to. 185/

C. Organizational Developments in Response to Vietnam War

The only significant ERA organizational change in 1966 was related to Vietnam. The demands for

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policy support on East Asia, particularly Vietnam, were growing rapidly and showed no sign of abating. Accordingly, on 13 December 1966 the Asia Branch of International Division was split into an Orient Branch and an Indochina Branch.* The former continued to be responsible for aggregative economic research on all non-Communist countries [redacted]

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[redacted] The Indochina Branch was responsible for [redacted]

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[redacted] Analysis Division. The professional complement of the two new branches totaled [redacted] compared with [redacted] for the former Asia Branch.

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This reorganization still did not achieve the concentration of Vietnam support activities in one Division. The logistical studies, bomb damage assessments, and manpower estimates, as well as the targeting and other operational analyses required in direct support of the war, were still being conducted by transportation, construction,

* A nomenclature change which was considered more descriptive of the divisional functions also took place on the same date: Analysis Division became Communist Division and International Division became General Division.

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and other specialists in Trade and Services and Resources Divisions. This work was centralized in an ad hoc Special Projects Task Force as of 23 January 1967.*

D. Demise of the Unclassified Dissemination Series

The highly successful program of disseminating unclassified ORR reports to selected university libraries, academicians, and other non-Government recipients came to an abrupt end in the spring of 1967. Its demise was brought about through no breach of security or misuse of a document but by the embroilment of CIA in a political controversy with respect to US financial involvement in the plan of the Fiat Company of Italy to construct an automobile plant in the Soviet Union.

The program of external distribution of unclassified reports had been started on a modest scale in 1959 as the result of a suggestion of ORR's Senior Advisory Panel. The DCI, Allen Dulles, concurred in the Panel's view that at least some of the research undertaken by ORR would be of benefit to the academic community and a public relations boost for CIA in terms of recruiting and of

* The establishment of a separate division to deal with the Vietnam problem occurred later in 1967. See Volume III.

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gaining recognition of the intellectual quality of the Agency's product. [] reports with an average distribution of [] copies were disseminated prior to 1960; thereafter the list of recipients expanded rapidly. By 1967, [] reports had been distributed and the recipient list numbered [] as follows 186:

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The Office was proud of the rapport that had been established with university experts on Soviet affairs and with other academicians and was able to cite many expressions of appreciation as well

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as less tangible but even more valuable assistance for its recruiting activities. The dissemination of ORR's findings and methodological techniques had exposed the Office's research activities to the rigors of critical examination, not only from its formal consultants but also from other recognized scholars. The quality of ORR research was thus enhanced, and in turn the desirability of ORR as a place of employment for economists was promoted. There was evidence also that outside research was benefiting from the use of ORR material.

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The contributions made by ORR to the unclassified papers issued by the Joint Economic Committee (JEC) of the Congress constituted another significant body of the Office's research findings that were made available for public use. Dulles' testimony before this committee in 1959 was followed by a published study on the relative costs and benefits to the United States and the USSR of their respective alliance systems -- a document that was openly

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attributed to the Agency (with collaboration by the
Departments of State and Defense).* A wide-ranging
compendium of papers on the Soviet economy was pub-
lished by the Committee in 1962

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A comparable contribution was made to the committee's compendium on Communist China in 1967.* Mention should also be made of the more than 100 books and articles produced by ORR personnel for outside publication and the numerous public presentations made by ORR's professional economists in academic and professional meetings up

* The list of papers and authors in the China volume was as follows:

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to 1967. It was manifest that by that time the Agency was well known by all who might be interested in such matters as the major center of Communist economic studies in the government -- and probably in the entire Free World.

In short, the many public surfacings of ORR's role seemed to have been finally justified as an appropriate and valuable means of promoting the image of CIA. Nevertheless, there had always been a grudging and uneasy acceptance of these ORR activities on the part of those Agency officials who had primary responsibility for public relations. They could not deny the benefits, but they feared that such activities could "get out of hand" and cause CIA to get involved in public controversy that would be potentially damaging to the image that it was their job to protect. The press conference episode of 1964, although not directly related to the unclassified dissemination policy, was regarded as the type of embarrassing situation that could occur. Such a viewpoint, of course, could not be reconciled with the fact that the CIA association with the revelations of Soviet economic weakness was what created the headlines and thus

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increased the degree of Soviet exposure and embarrassment, which was what the President and other policymakers were after. In the long run, therefore, as Soviet economic problems became generally acknowledged, the Agency's image had been enhanced. Since the situation had gone beyond the control of the public relations experts, however, it was feared, and outright public exposure through the press was thereafter forbidden. It was against this background that ORR became involved in the Soviet-Fiat automobile plant controversy.

The agreement concluded on 4 May 1966 between the Italian firm Fiat and the Soviet Union for the construction of an automobile plant on the Volga was, of course, a matter of legitimate economic intelligence interest, but it would not have had much domestic political impact in the United States if it had not developed that the Italians were seeking a \$50 million loan from the Export-Import Bank for the purchase of US machine tools to install in the plant. The Bank was -- quite correctly -- unwilling to proceed with the loan without a policy decision from the Administration. At a

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meeting of the Senior Interdepartmental Group (SIG) on 31 May 1966 it was agreed that such a loan would be in the US interest. In order to present the full case to the President and the Congress, the SIG requested CIA, in collaboration with State's Economic Affairs desk, to prepare "a study of US and certain Western countries for the purpose of showing a curve of investments accompanying or following a sharp rise in automobile production, and the resource implications thereof." 188/

Meanwhile, Assistant Secretary of State for Economic Affairs, [] asked for a study that went somewhat beyond the impact of the initial Soviet decision (to mass produce automobiles) on investment allocations to a consideration of the secondary effects on steelmaking and other industrial supporting facilities and the tertiary effects on road construction, service station requirements, etc. The study would be used not only to address the immediate question of the Export-Import Bank loan but also the related question of the export to the Soviet Union of a steel mill from the United States; it would also provide general guidance on East-West trade

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policy. [] requested that the study be unclassified or that an unclassified version be prepared "so that it could be released by the President to the Congress and to the press if desired." 189/

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ORR's Manufacturing Branch turned out the requested study with the title Impact of the New Soviet Automobile Program on a crash basis, and it was duly forwarded to Solomon on 10 June. The covering memorandum specified that the report should be handled as unclassified unless specific attribution was given to the Agency. 190/ Since the State Department wished to use the report in representations to Congress, the DCI directed that if it were so used it should be clearly marked as an Agency paper. Accordingly, another version was prepared with minor revisions and a more seductive title, USSR: About to Enter the Automotive Age? It was published as an unclassified report of the Directorate of Intelligence under the Agency seal, and given wide distribution to an "elite" list of government recipients. []

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A few other copies were distributed to Congressional requesters during the fall of 1966.

The thrust of ORR's message in this report was that the Soviet decision would bring the USSR one step nearer the automotive age, but that the announced plans would not mean any significant change in Soviet economic priorities or alter Soviet military and space programs. The day of a personally owned automobile was not yet in sight for the average Soviet citizen, and there would be only slight increases in investment required for supporting facilities for the production of steel, gasoline, and tires or for so-called tertiary investment -- i.e., highways, service stations, motels, etc. The report did not discuss the proposed Export-Import Bank loan, although it did include a table showing the United States as the source of \$30 to \$50 million of the estimated \$800 million cost of the project. 191/ There was

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no mention of the US machine tools contemplated, or of the possibility that either the machinery or the automobiles produced could have direct or indirect effects on Soviet military potential. In short, there was ostensibly nothing in the reports that could be foreseen as involving the Agency in a controversy over US policy on East-West trade.

The Agency did get involved, however. East-West trade was an explosive issue between the Johnson administration and the Republican leadership in the Congress, and the Agency report was quoted by both sides in support of their position. An Evans and Novak column in the 18 January 1967 edition of the Washington Post, entitled "Machine Tools for Russia," mistakenly attributed to a so-called "Confidential" CIA report the prediction that the new automobile plant would "have deep reverberations inside the Soviet economy. By eventually spawning highways, gas stations, tires and other auto accessories, it would compete with war production for priority inside the Soviet economy." 192/ It also attributed to CIA the view that "this first export to Russia of US precision tools cannot help build the Soviet war machine," 193/

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a judgment that the Office did hold with respect to the particular tools likely to be involved, but one which had not been made public in writing. 194/

In the course of the controversy, the DCI was requested by one of the Congressmen involved to express his opinion of the proposed Export-Import Bank loan; the report *USSR: About to Enter the Automotive Age* was reprinted in a larger report on the subject by the Subcommittee on International Trade of the House Committee on Banking and Currency 195/; and the Director was finally invited to testify before the Committee on 3 May 1967.

Helms testimony, in which he was assisted by [redacted] traced the developments which led to the CIA report, reiterated the Agency's role as a fact-finder and its scrupulous avoidance of advocacy in policy decisions, and, in response to questioning, brought out that there was little danger of any gain in war potential either to the Soviet Union or to the Communist forces in Vietnam from any US participation through the provision of machine tools to the Soviets' proposed Fiat plant. Following the testimony, the

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Subcommittee defeated by a vote of 18 to 15 an attempt to amend the pending Export-Import Bank bill by barring the bank from financing exports to any country engaged in hostilities with the United States or to any government supplying a country engaged in hostilities with the United States (i.e., North Vietnam).*

Even prior to the Congressional hearing it had already become clear that the embroilment of the Agency in this controversy was disturbing to the DCI. An investigation of the circumstances of the Fiat Report -- its origins, its review within ORR, its release to Congress, and its ultimate wider dissemination -- was conducted by the Inspector General's Office. 196/

The unclassified report, as reprinted in the Congressional document, was widely discussed in the press early in March 1967. One of the points that was played up was a statement in the report that there were only eight filling stations in Moscow. A Soviet attempt to ridicule CIA's count was allegedly made by two Russian journalists, who

* The Bank was ultimately enjoined from involvement in the deal by action of the US Senate, but Fiat was able to buy about \$35 million worth of machine tools from US firms for the Russian plant without the benefit of Bank guarantees.

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came up with pictures of 99 gas stations in Moscow in the course of a day's search. The AP dispatch reporting this event, however, pointed out that most of these were not for public use and that in fact foreigners in Moscow were served gasoline at only one station. 197/

Apparently this public exposure and attempt at ridicule were too much for the sensitivities of the Seventh Floor. On the day that the AP dispatch was received, [redacted] the Executive Director-Comptroller, issues a memorandum, noting:

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Experience has shown that finished intelligence produced by the Central Intelligence Agency, which has been made available on an unclassified basis, is utilized abroad to the detriment of the national interest. This is not so much because of the content as the fact that it is the official product of the Central Intelligence Agency. Consequently, no sanitized versions will be produced of finished intelligence which is an official Central Intelligence Agency project, and all such reports will bear a classification appropriate to the content and source.

This means there can be no dissemination of such material to college and university libraries. Also, if we receive congressional requests for such material, it will be made available through our own congressional subcommittees. 198/

This directive was the death knell of ORR's unclassified dissemination program. Efforts to have an exception made for the Office's well-established

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and beneficial procedures were unavailing. The facts that the Fiat case had resulted from an unclassified report prepared in response to a policy request and that the subsequent publicity had resulted from Congressional use of the report rather than from ORR's favored academic recipients were not sufficiently persuasive, and finally on 1 May 1967, [] signed the memorandum concluding the unclassified series.* Previously published reports in the series, *except the Fiat report*, would continue to be released, but no more reports of this type were to be produced. 200/

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E. The Six Day War

Always excepting Vietnam, the most pressing international problem that stimulated a major policy support effort from ORR in its last months of existence was the Arab-Israeli Crisis culminating in the Six Day War of June 1967. According to Office activity records, [] requests for support

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in connection with this affair were received in FY 1967, [] of these from the White House. The Office's long-established function of following the extensions and deliveries of Communist military aid to developing countries stood it in good stead in responding to requests for judgments about the military strength of Arab countries. 201/

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As the antagonists were mobilizing for the showdown in late May 1967, studies were supplied to Walt W. Rostow, Special Assistant to the President, analyzing the abilities of their economies to function under conditions of mobilization. 202/

[] support papers covering a wide spectrum of subjects were furnished to the Middle East Committee of the National Security Council during June 1967, while the DDP was the recipient of an estimate on Arab military losses. The broader international implications of the crisis were analyzed in self-initiated projects concerned with the Suez Canal closure.* 203/

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* A more detailed discussion of OER's substantive contribution in the continuing Arab-Israeli confrontation is included in Volume III of this history.

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On 1 July 1967 the Office of Research and Reports was dissolved. The Military-Economic Research Area [redacted] combined with elements from OCI to become the Office of Strategic Research (OSR) -- a development that had been in the planning stage for many months. The Economic Research Area together with the several staffs of ORR, was reconstituted as the Office of Economic Research (OER) with [redacted] [redacted] as the Director and [redacted] as the Acting Deputy Director.* The detailed reasons for the separation of military economic research activities that had been developed within ORR are the proper concern of OSR's history. From the perspective of the history of ORR, it appears as a natural part of the evolutionary process. Economic intelligence was set up as only one of the three major functions of the Office when it was established at the end of 1951. The other two functions, basic intelligence and geographic intelligence, also evolved in their distinct patterns and departed as organizations in 1955 and 1965,

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respectively. Economic intelligence was preoccupied during the first ten years of the Office's existence, 1952-61, with the target countries of the Communist world. Intelligence production was first concentrated on a vast cataloging effort of these countries' strengths and weaknesses, an effort which undoubtedly had its operational uses -- e.g., in support of economic defense -- but can now be viewed primarily as a building-block activity necessary for the aggregative research which was to be of much more significance for the guidance of policy officials. Historically significant events within the target countries -- e.g., the increase of Communist economic relations with the Free World, and particularly with underdeveloped countries in the Free World -- caused some redirection of the economic intelligence effort in the latter half of the decade. Military economic intelligence, initially concerned primarily with conventional weapons and delivery systems, expanded in response to the growing missile capabilities of the USSR. The growing requirement for this type of intelligence and such related topics as civil defense and military

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costing led in the mid-1960's to the establishment of a military economic intelligence organization at the Area level which was co-equal with the economic intelligence organization. The growing stature of both organizations in the intelligence hierarchy led to the 1967 decisions that raised them both to the Office level.

By mid-1967 the economic intelligence activity had a tacit charter to function anywhere in the world. It was clearly the leading organization in the US intelligence community -- and probably in the entire Free World -- doing economic research and analysis in depth on the Communist countries; its detailed reporting on many facets of enemy activity in the Vietnam War was in great demand at the highest levels of government; and its facilities on the Free World were being increasingly called upon for support by all departments and by the White House. Thus the new Office of Economic Research was created in a far different atmosphere from that in which its predecessor was set up. It will be recalled that ORR had been created from the residue of a disintegrating conglomerate, the Office of Reports and Estimates.* OER, on the

* See Vol. I, Chap. I & II.

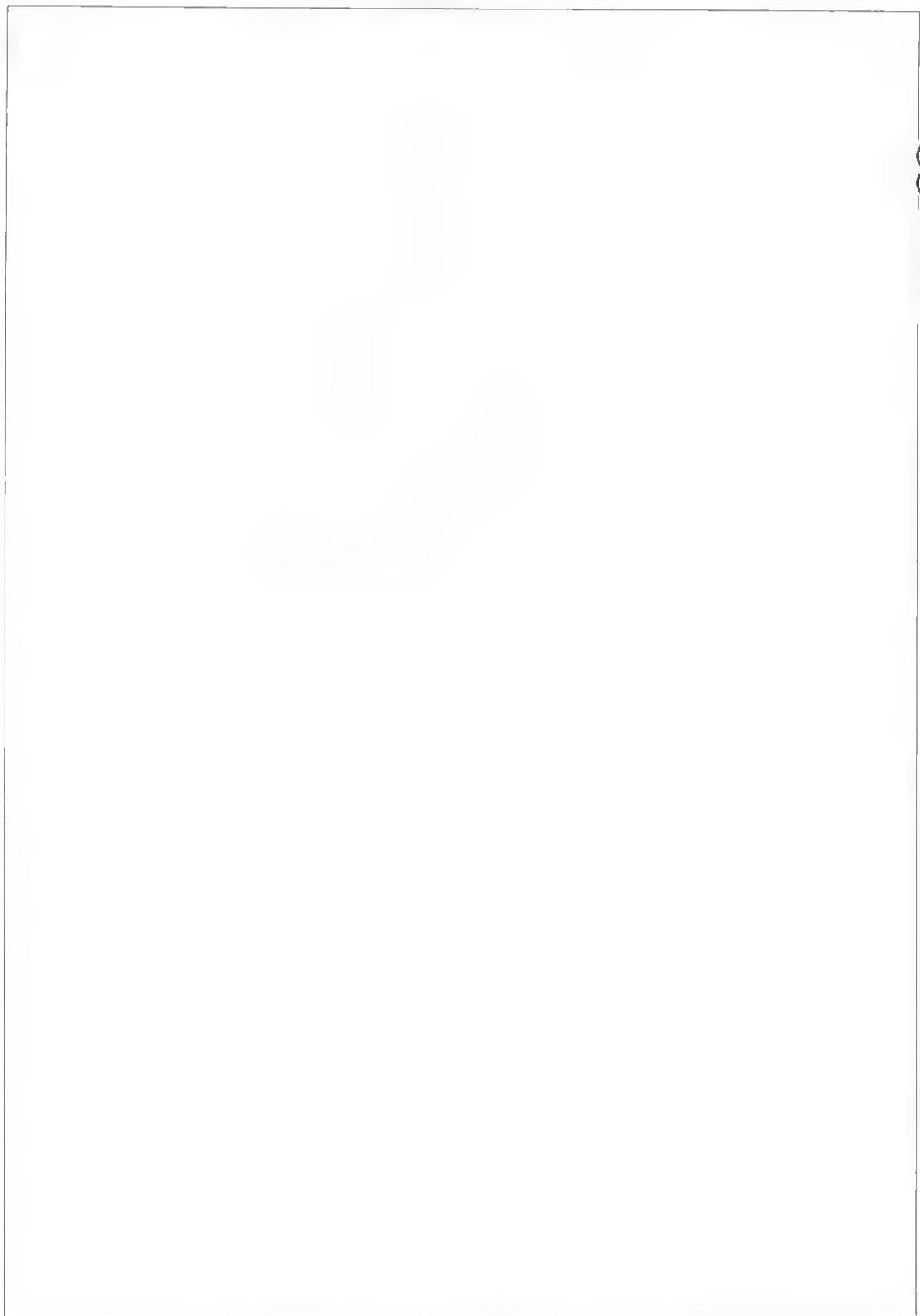
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other hand, was created because both the economic intelligence function and the military-economic intelligence function had developed in significance and in utility to the policymaker to the point where enhanced organizational recognition of both roles was necessary. The formal recognition of OER and OSR as separate Office-level organizations was an acknowledgement not only of the growing complexity of the economic intelligence mission but also of its importance in the formulation of US foreign policy.

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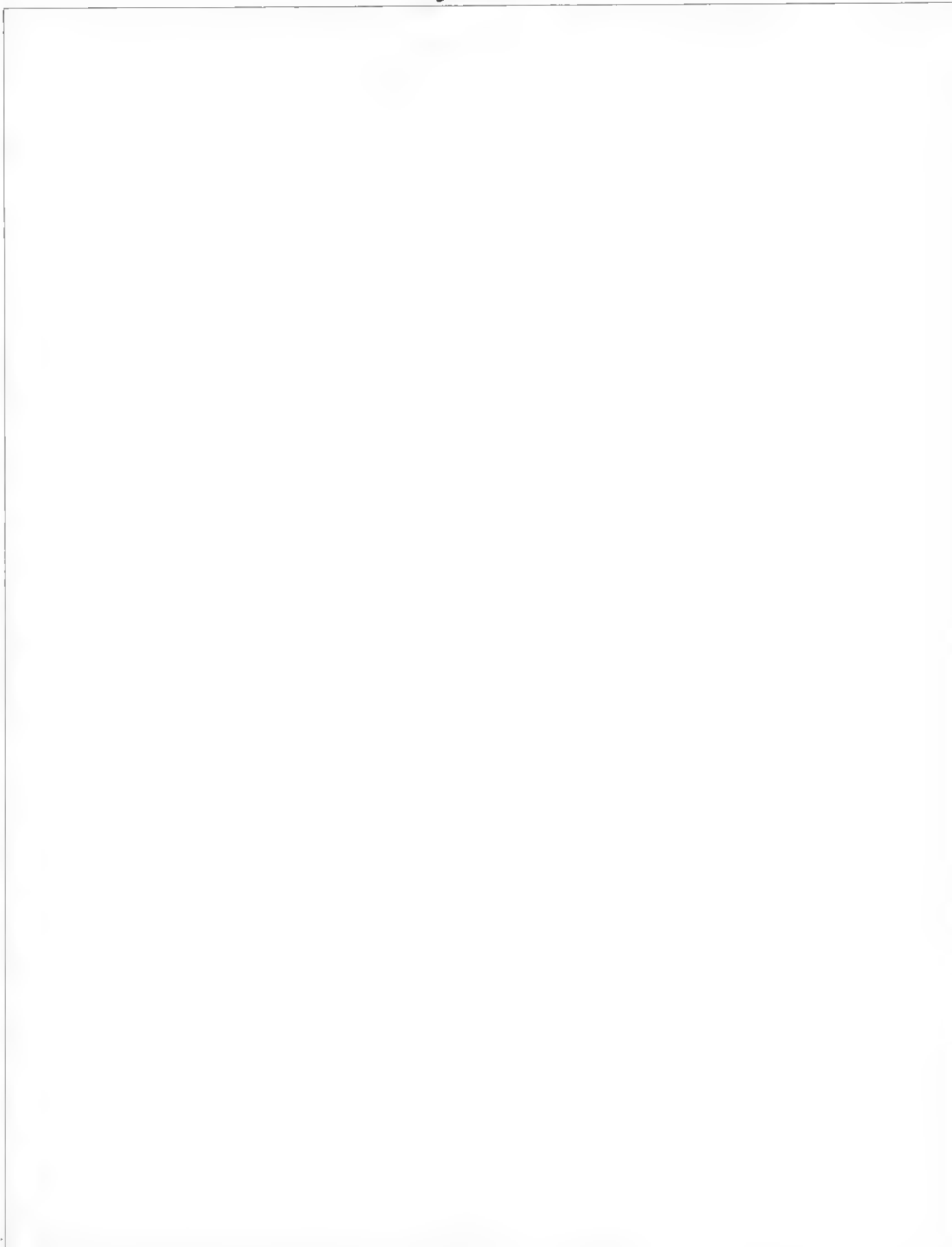


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APPENDIX B

11 March 1965

The Honorable Dean Rusk
Secretary of State
Washington, D.C. 20520

Dear Dean:

In discussions with the Bureau of the Budget a problem has arisen with respect to the Agency's production of intelligence on the economies of non-Communist countries. The Bureau appears to interpret the Agency's limited research and production in this area as contrary to the provisions of DCID No. 3/1 (Production and Coordination of Foreign Economic Intelligence), which allocates primary production responsibility of economic intelligence on foreign countries outside the Sino-Soviet Bloc to the Department of State. At the same time, this directive provides that each department or agency ... shall maintain adequate research facilities to accomplish its departmental intelligence production mission, and ... may make such studies as it believes necessary to supplement intelligence produced by other departments and agencies. Paragraph 7c. of NSCID No. 3, which discusses the CIA's responsibilities for producing economic intelligence on the Sino-Soviet Bloc, states that the CIA may produce such other intelligence as may be necessary to discharge the statutory responsibilities of the Director of Central Intelligence.

While continuing to recognize the Department's primary responsibility for the production of Free World economic intelligence, I have found it necessary to develop within CIA a limited capability for all-source economic analyses on non-Communist countries. Part of the need to create this capability grew from the discharge of CIA's responsibility for providing intelligence on Communist economic activities in non-Communist countries. The Clandestine Services require detailed economic analyses based on highly sensitive sources to support certain of their activities in non-Communist areas. The Agency's responsibility to produce, at the national level, timely all-source economic intelligence on current developments in non-Communist areas precludes, as a practical matter, our relying wholly on the other intelligence components of the community. Lastly, as the Director of Central Intelligence, I must maintain within the Agency the capability of obtaining immediate all-source economic intelligence bearing on critical national policy questions and also insure that I have within the Agency the competence to evaluate the economic intelligence on non-Communist areas obtained from the Department and other agencies upon which we are dependent.

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We have found it helpful to reinforce the Department's economic contributions to National Estimates, particularly since 1961 when the Department consciously reoriented its economic intelligence effort away from more basic research toward direct support of policy officials in the form of brief departmental reports and memoranda. It is my understanding that the reduction in the Department's capability for economic intelligence research on non-Communist countries has stemmed not only from this reorientation but also from the transfer to CIA, at Mr. Hilsman's request, of the Department's NIS production responsibilities.

We understand the adjustments that the Department has made in this field and believe that the people concerned, both in this Agency and in the Department, are fully aware of the economic intelligence produced in their respective organizations.

I have informed the Bureau of the Budget that my responsibilities as DCI require that I maintain such limited capability as we have developed for all-source analyses of the economies of non-Communist countries, and I have also had the matter brought to [redacted] attention. The proliferation of new nations, particularly in Africa, and the increasing challenge of Communist initiatives in these newly emergent nations has brought about a sharp increase in the demands, at the highest government levels, for economic intelligence. In my view, it is necessary for the Department and CIA to continue at least their present joint production capabilities on non-Communist areas if we are to respond to national economic intelligence needs of urgent concern. This could not be done if the capability of either the Department or of the CIA in this field were reduced.

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My purpose in writing you is to insure that you are aware of my views on the importance of maintaining both State and CIA production capabilities at no lower than present levels and to inform you that I am advising the Bureau of the Budget that we consider DCID No. 3/1 properly interpretable as permissive of these intelligence production activities.

Sincerely,

/s/ John

John A. McCone
Director

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APPENDIX C

7 Jan 1965

Dear Bob:

My staff has recently advised me of the increasing requirements being posed by DOD and ACDA to assess the costs and economic impact of military and space programs of foreign countries. Such studies, of much greater detail than are required for national estimates, are clearly essential to realistic program planning efforts. The intelligence community cannot at present fully meet these requirements. As a result, some studies are now being done for the DOD which differ from our assessments which respect to basic data, method and conclusions, and in fact differ from one another.

Accordingly, I directed that this problem be discussed with your Comptroller, Mr. Hitch, and that the possibility of greater centralization of attention and effort on this matter be explored. Mr. Hitch stated that the DOD requirements for costing foreign military programs will increase over even the present level. Consequently, I believe that economic analyses of the cost of foreign military programs and their implications, whether done within the Government or under contract, should be more centrally directed, monitored and evaluated. This approach would safeguard the quality and consistency of the research and would result in significant monetary savings to the Government.

Mr. Hitch, aware of CIA's past efforts in the economic field, reacted favorably to our suggestion that the intelligence community is best suited to provide a central point of reference in these matters and could meet the increasing requirements by supplementing the substantial core of experienced analysts now in CIA.

General Carroll has been informed of our conversation with Mr. Hitch. I believe him to be in full agreement with our views and anxious to work out mutually agreeable machinery to coordinate and integrate our efforts to efficiently meet DOD and other needs.

If you agree, I propose to work out arrangements with the Bureau of the Budget to expand CIA's capabilities for this type of research on the promise that off-setting dollar savings will accrue by a reduction in the need for DOD to let external contracts in these fields. I do not suggest that DOD restrict its flexibility in relying on outside contracts where you deem this advisable. But I would suggest that such contracting be done in the full light of the capability and experience of the intelligence community.

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I would appreciate a statement of your views on this matter making clear the priority of DOD's requirements as well as your reaction to the proposal to seek a more centralized response to this problem.

I intend to discuss this matter, which has similar implications for our support of ACDA, with Bill Foster.

Sincerely,

/s/

John A. McCone
Director

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APPENDIX D

February 5, 1965

Honorable John A. McCone
Director
Central Intelligence Agency

Dear John:

I also have been concerned about the quality of some past studies relating to *cost and resource impact of foreign military and space programs*; and, because of the increasing importance of these economic studies, I agree that they should be more centrally directed, monitored, and evaluated. I wholeheartedly concur that the Central Intelligence Agency should continue to have primary responsibility for these analyses and, consequently, I support the expansion of the Central Intelligence Agency's capabilities in this area. As you expand this capability, we should be able to phase-down our external contracts.

To assure greater control of this effort within the Department of Defense, I have designated the Assistant Secretary of Defense (Comptroller) to coordinate and integrate DoD requests for foreign cost and resource analysis so that the capability of the Central Intelligence Agency can be effectively utilized. These requests will be transmitted directly to your staff. This is not intended to restrict the necessary cooperation between the Central Intelligence Agency and the Defense Intelligence Agency. As you may appreciate, General Carroll's capability in this area might need some augmentation, not only to enhance cooperation with the Central Intelligence Agency, but to assure responsiveness to future requirements, including the undertaking of specialized comparative costing problems. Furthermore, the Assistant Secretary of Defense (Comptroller) will also inform your staff of actions which might result in external contracts in these fields.

Sincerely,

/s/ Cy

Deputy Sec/Def

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